

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
COUNTYWIDE**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 70
Countywide
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County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 70 - Countywide

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, fiduciary activities, and each major fund of the County of San Bernardino Special District County Service Area No. 70 - Countywide (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the fiduciary activities and each major fund of the County of San Bernardino Special District County Service Area No. 70 - Countywide, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 25 is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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CERTIFIED PUBLIC ACCOUNTANTS
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

The County of San Bernardino Special District County Service Area No. 70 - Countywide has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CSA's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the component unit financial statements taken as a whole.

September 26, 2003

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County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Statement of Net Assets
June 30, 2003

| | Governmental Activities | Business-type Activities | Total |
|-------------------------------------|----------------------------|-----------------------------|---------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 4,460,331 | \$ 41,274 | \$ 4,501,605 |
| Interest receivable | 26,431 | 226 | 26,657 |
| Due from other governments | 67,848 | 78,511 | 146,359 |
| Capital assets, net of depreciation | 2,247,358 | - | 2,247,358 |
| Total Assets | <u>6,801,968</u> | <u>120,011</u> | <u>6,921,979</u> |
| LIABILITIES | | | |
| Accounts payable | 323,694 | - | 323,694 |
| Salaries and benefits payable | 205,340 | - | 205,340 |
| Compensated absences payable | 543,470 | - | 543,470 |
| Total Liabilities | <u>1,072,504</u> | <u>-</u> | <u>1,072,504</u> |
| NET ASSETS | | | |
| Invested in capital assets | 2,247,358 | - | 2,247,358 |
| Unrestricted | 3,482,106 | 120,011 | 3,602,117 |
| Total Net Assets | <u>\$ 5,729,464</u> | <u>\$ 120,011</u> | <u>\$ 5,849,475</u> |

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Services Area No. 70 - Countywide
Statement of Activities
For the Year Ended June 30, 2003**

| | Governmental Activities | Business-type Activities | Total |
|------------------------------------|----------------------------|-----------------------------|---------------------|
| EXPENSES | | | |
| Salaries and benefits | \$ (584,445) | \$ - | \$ (584,445) |
| Services and supplies | 363,530 | - | 363,530 |
| Depreciation | 258,574 | - | 258,574 |
| Total Program Expenses | <u>37,659</u> | <u>-</u> | <u>37,659</u> |
| PROGRAM REVENUES | | | |
| Charges for services | 135,973 | - | 135,973 |
| Operating grants and contributions | 647,106 | - | 647,106 |
| Net Program Revenue | <u>745,420</u> | <u>-</u> | <u>745,420</u> |
| GENERAL REVENUES | | | |
| Investment earnings | 123,257 | 1,168 | 124,425 |
| Other revenue | 827,808 | 83,511 | 911,319 |
| Loss on sale of capital assets | (8,142) | (3,875) | (12,017) |
| Total General Revenues | <u>942,923</u> | <u>80,804</u> | <u>1,023,727</u> |
| Change in Net Assets | 1,688,343 | 80,804 | 1,769,147 |
| Net Assets - beginning | <u>4,041,121</u> | <u>39,207</u> | <u>4,080,328</u> |
| Net Assets - ending | <u>\$ 5,729,464</u> | <u>\$ 120,011</u> | <u>\$ 5,849,475</u> |

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Balance Sheet
Governmental Funds
June 30, 2003**

| | SPECIAL REVENUE FUND | CAPITAL PROJECT FUNDS | |
|--|----------------------------|-----------------------|-------------------|
| | General (SKV) | Amiga (CHE) | Capital (CMT) |
| ASSETS | | | |
| Cash and cash equivalents | \$ 3,212,865 | \$ 486 | \$ 518,286 |
| Interest receivable | 19,941 | 24 | 2,935 |
| Due from other governments | 110,393 | - | - |
| Total Assets | <u>\$ 3,343,199</u> | <u>\$ 510</u> | <u>\$ 521,221</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable | \$ 323,694 | \$ - | \$ - |
| Salaries and benefits payable | 205,340 | - | - |
| Due to other governments | 42,545 | - | - |
| Total Liabilities | <u>571,579</u> | <u>-</u> | <u>-</u> |
| Fund Balances: | | | |
| Reserved for: | | | |
| Encumbrances | 97,917 | - | - |
| Unreserved: | | | |
| Undesignated | 2,673,703 | 510 | 521,221 |
| Total Fund Balances | <u>2,771,620</u> | <u>510</u> | <u>521,221</u> |
| Total Liabilities and Fund Balances | <u>\$ 3,343,199</u> | <u>\$ 510</u> | <u>\$ 521,221</u> |

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Compensated absences payable are not financial resources, and therefore, are not reported in the funds.

Net assets of governmental funds

The accompanying notes are an integral part of these financial statements.

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$ 728,694 | \$ 4,460,331 |
| 3,531 | 26,431 |
| - | 110,393 |
| <u>\$ 732,225</u> | <u>\$ 4,597,155</u> |
| | |
| \$ - | \$ 323,694 |
| - | 205,340 |
| - | 42,545 |
| <u>-</u> | <u>571,579</u> |
| | |
| 20,289 | 118,206 |
| <u>711,936</u> | <u>3,907,370</u> |
| | |
| <u>732,225</u> | 4,025,576 |
| | |
| <u>\$ 732,225</u> | |
| | |
| | 2,247,358 |
| | <u>(543,470)</u> |
| | <u>\$ 5,729,464</u> |

**County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003**

| | SPECIAL REVENUE FUND | CAPITAL PROJECT FUNDS | |
|---|----------------------------|-----------------------|------------------|
| | General (SKV) | Amiga (CHE) | Capital (CMT) |
| REVENUES | | | |
| Investment earnings | \$ 87,958 | \$ 156 | \$ 18,887 |
| Contributions | 399,348 | - | - |
| Service fees | 135,973 | - | - |
| Other | 356,742 | 196,993 | - |
| Total Revenues | 980,021 | 197,149 | 18,887 |
| EXPENDITURES | | | |
| Salaries and benefits | (590,710) | - | - |
| Services and supplies | 246,260 | - | - |
| Capital outlay | 1,106,566 | 196,993 | - |
| Total Expenditures | 762,116 | 196,993 | - |
| Excess of Revenues Over (Under) Expenditures | 217,905 | 156 | 18,887 |
| OTHER FINANCING SOURCES (USES) | | | |
| Reimbursements | 42,764 | - | - |
| Transfer in | 200,000 | - | - |
| Transfer out | (73,447) | - | - |
| Total Other Financing Sources (Uses) | 169,317 | - | - |
| Net Change in Fund Balances | 387,222 | 156 | 18,887 |
| Fund Balances - beginning | 2,384,398 | 354 | 502,334 |
| Fund Balances - ending | \$2,771,620 | \$ 510 | \$ 521,221 |

The accompanying notes are an integral part of these financial statements.

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$ 16,256 | \$ 123,257 |
| - | 399,348 |
| - | 135,973 |
| 274,073 | 827,808 |
| <u>290,329</u> | <u>1,486,386</u> |
| - | (590,710) |
| 53,758 | 300,018 |
| 6,541 | 1,310,100 |
| <u>60,299</u> | <u>1,019,408</u> |
| <u>230,030</u> | <u>466,978</u> |
| - | 42,764 |
| 78,441 | 278,441 |
| - | (73,447) |
| <u>78,441</u> | <u>247,758</u> |
| 308,471 | 714,736 |
| <u>423,754</u> | <u>3,310,840</u> |
| <u>\$ 732,225</u> | <u>\$ 4,025,576</u> |

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County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2003

| | |
|--|----------------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 714,736 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period. | 988,014 |
| The net effect of capital outlay transactions to decrease net assets. | |
| Loss on sale of capital assets | (8,142) |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | |
| Increase in compensated absences payable | <u>(6,265)</u> |
| Change in net assets of governmental activities | <u><u>\$ 1,688,343</u></u> |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Statement of Net Assets
Proprietary Fund
June 30, 2003

| | ENTERPRISE FUND <hr/> Ambulance <hr/> |
|-------------------------------------|--|
| ASSETS | |
| Cash and cash equivalents | \$ 41,274 |
| Interest receivable | 226 |
| Capital assets, net of depreciation | 78,511 |
| | <hr/> |
| Total Assets | 120,011 |
| | <hr/> |
| LIABILITIES | - |
| | <hr/> |
| NET ASSETS | |
| Unrestricted | 120,011 |
| | <hr/> |
| Total Net Assets | \$ 120,011 |
| | <hr/> <hr/> |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2003

| | ENTERPRISE FUND <u>Ambulance</u> |
|---|--|
| OPERATING EXPENSES | <u>\$ -</u> |
| NONOPERATING REVENUES (EXPENSES) | |
| Investment earnings | 1,168 |
| Other | 83,511 |
| Loss on sale of capital assets | <u>(3,875)</u> |
| Total Nonoperating Revenues (Expenses) | <u>80,804</u> |
| Change in Net Assets | 80,804 |
| Net Assets - beginning | <u>39,207</u> |
| Net Assets - ending | <u><u>\$ 120,011</u></u> |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2003

| | ENTERPRISE FUND <hr/> Ambulance <hr/> |
|--|---|
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Other nonoperating revenues | \$ 5,000 |
| Net Cash Provided by Noncapital Financing Activities | <hr/> 5,000 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Investment earnings | <hr/> 1,290 |
| Net Cash Provided By Investing Activities | <hr/> 1,290 |
| Net Increase in Cash and Cash Equivalents | 6,290 |
| Cash and Cash Equivalents - beginning of the year | <hr/> 34,984 |
| Cash and Cash Equivalents - end of the year | <hr/> <hr/> \$ 41,274 |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Statement of Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2003

ASSETS

Cash and cash equivalents

\$ 142,004

Total Assets

142,004

LIABILITIES

Due to bondholders

142,004

Total Liabilities

142,004

NET ASSETS

\$

-

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 70 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) to provide the centralized mechanism for administration of personnel who serve all board governed districts. The employees are engaged in multi-district operations funded by the various sanitation, water, road, streetlights, park and fire districts. Staff provides centralized and regional management services, administration, budget and finance, human resources, payroll and information services.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects funds* are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The government reports the following major proprietary fund:

The *enterprise fund* labeled "Ambulance" accounts for the activities of the CSA, a blended component unit of the County. The CSA operates the ambulance transportation services under the administration of the County Fire Department.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

**County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the CSA enterprise fund is charges to customers for ambulance transportation services. Operating expenses for enterprise funds include the cost of salaries and benefits, service and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------------|--------------|
| Infrastructure | 40 - 60 |
| Structures and improvements | 5 - 40 |
| Equipment and vehicles | 4 - 15 |

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The CSA is not obligated to pay for unused sick leave if an employee terminates or retires.

**County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated absences activity for the year ended June 30, 2003 was as follows:

| <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|------------------------------|-------------------|-------------------|---------------------------|
| <u>\$ 537,205</u> | <u>\$ 325,249</u> | <u>\$ 318,984</u> | <u>\$ 543,470</u> |

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$988,014 difference are as follows:

| | |
|--|-------------------|
| Capital outlay | \$ 1,246,588 |
| Depreciation expense | <u>(258,574)</u> |
| Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | <u>\$ 988,014</u> |

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

**County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Notes to Financial Statements
June 30, 2003

NOTE 3: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|--|----------------------|-------------------|-------------------|---------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 235,826 | \$ - | \$ - | \$ 235,826 |
| Construction in progress | 84,566 | 220,535 | - | 305,101 |
| Total capital assets, not being depreciated | <u>320,392</u> | <u>220,535</u> | <u>-</u> | <u>540,927</u> |
| Capital assets, being depreciated: | | | | |
| Land improvements | 233,326 | - | - | 233,326 |
| Structures and improvements | 106,756 | - | - | 106,756 |
| Vehicles | 1,464,413 | 959,538 | (32,230) | 2,391,721 |
| Equipment | 436,041 | 66,515 | (43,322) | 459,234 |
| Total capital assets, being depreciated | <u>2,240,536</u> | <u>1,026,053</u> | <u>(75,552)</u> | <u>3,191,037</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | (44,366) | (8,618) | - | (52,984) |
| Structures and improvements | (38,155) | (2,372) | - | (40,527) |
| Vehicles | (853,988) | (224,820) | 32,230 | (1,046,578) |
| Equipment | (356,933) | (22,764) | 35,180 | (344,517) |
| Total accumulated depreciation | <u>(1,293,442)</u> | <u>(258,574)</u> | <u>67,410</u> | <u>(1,484,606)</u> |
| Total capital assets, being depreciated, net | <u>947,094</u> | <u>767,479</u> | <u>(8,142)</u> | <u>1,706,431</u> |
| Governmental activities capital assets, net | <u>\$1,267,486</u> | <u>\$ 988,014</u> | <u>\$ (8,142)</u> | <u>\$ 2,247,358</u> |
| Business-type activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Equipment | \$ 9,689 | \$ - | \$ (9,689) | \$ - |
| Total capital assets, being depreciated | <u>9,689</u> | <u>-</u> | <u>(9,689)</u> | <u>-</u> |
| Less accumulated depreciation for: | | | | |
| Equipment | (5,814) | - | 5,814 | - |
| Total accumulated depreciation | <u>(5,814)</u> | <u>-</u> | <u>5,814</u> | <u>-</u> |
| Total capital assets, being depreciated, net | <u>\$ 3,875</u> | <u>\$ -</u> | <u>\$ (3,875)</u> | <u>\$ -</u> |

**County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Notes to Financial Statements
June 30, 2003**

NOTE 4: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. The CSA paid \$544,873 to the plan as the employer's share. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Notes to Financial Statements
June 30, 2003

NOTE 4: RETIREMENT PLAN (continued)

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

| <u>Year Ended June 30,</u> | <u>Annual Pension Cost (in thousands)</u> | <u>Percentage Contributed</u> |
|--------------------------------|---|-----------------------------------|
| 2001 | 58,572 | 100% |
| 2002 | 69,245 | 100% |
| 2003 | 68,361 | 100% |

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

NOTE 5: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 6: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). Insurance premiums totaled \$561,520 for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Notes to Financial Statements
June 30, 2003

NOTE 6: RISK MANAGEMENT (continued)

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

| <u>Fiscal Year</u> | <u>Beginning of Fiscal Year Liability (in thousands)</u> | <u>Current Year Claims and Changes in Estimates (in thousands)</u> | <u>Claims Payments (in thousands)</u> | <u>End of Fiscal Year Liability (in thousands)</u> |
|--------------------|--|--|---|--|
| 2002 - 2003 | \$ 95,288 | \$ 23,647 | \$ (32,171) | \$ 86,764 |
| 2001 - 2002 | \$ 61,172 | \$ 61,832 | \$ (27,716) | \$ 95,288 |

NOTE 7: TRANSFERS IN/OUT

Interfund transfers are transactions used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital projects funds. At June 30, 2003, the CSA made the following interfund transfers in and out:

| | <u>Transfers in:</u> | | <u>Total</u> |
|---------------|----------------------|------------------|------------------|
| | <u>Blake LL</u> | <u>Warehouse</u> | |
| Transfer out: | | | |
| General (SKV) | <u>\$ 447</u> | <u>\$ 73,000</u> | <u>\$ 73,447</u> |

**County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Notes to Financial Statements
June 30, 2003**

NOTE 8: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 9: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Budgetary Comparison Schedule - Special Revenue Fund
For the Year Ended June 30, 2003

| | SPECIAL REVENUE FUND | | | |
|---|-----------------------|-----------------------|---------------------|---|
| | General (SKV) | | | |
| | Original Budget | Final Budget | Actual | Variance with Final Budget Favorable (Unfavorable) |
| REVENUES: | | | | |
| Investment earnings | \$ 89,397 | \$ 89,397 | \$ 87,958 | \$ (1,439) |
| Contributions | 399,348 | 399,348 | 399,348 | - |
| Service fees | 113,600 | 113,600 | 135,973 | 22,373 |
| Other | 437,018 | 437,018 | 356,742 | (80,276) |
| Total Revenues | <u>1,039,363</u> | <u>1,039,363</u> | <u>980,021</u> | <u>(59,342)</u> |
| EXPENDITURES: | | | | |
| Salaries and benefits | 474,141 | 391,089 | (590,710) | 981,799 |
| Services and supplies | 446,354 | 727,906 | 246,260 | 481,646 |
| Capital outlay | 1,255,700 | 1,255,700 | 1,106,566 | 149,134 |
| Reserves and contingencies | 930,909 | 930,909 | - | 930,909 |
| Total Expenditures | <u>3,107,104</u> | <u>3,305,604</u> | <u>762,116</u> | <u>2,543,488</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(2,067,741)</u> | <u>(2,266,241)</u> | <u>217,905</u> | <u>2,484,146</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Reimbursements | - | - | 42,764 | 42,764 |
| Transfer in | 150,000 | 350,000 | 200,000 | (150,000) |
| Transfer out | (99,000) | (100,500) | (73,447) | 27,053 |
| Total Other Financing Sources (Uses) | <u>51,000</u> | <u>249,500</u> | <u>169,317</u> | <u>(80,183)</u> |
| Net Change in Fund Balances | <u>\$ (2,016,741)</u> | <u>\$ (2,016,741)</u> | <u>387,222</u> | <u>\$ 2,403,963</u> |
| Fund Balances - beginning | | | <u>2,384,398</u> | |
| Fund Balances - ending | | | <u>\$ 2,771,620</u> | |

**County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2003**

| | <u>SPECIAL REVENUE FUNDS</u> | | <u>CAPITAL PROJECTS FUNDS</u> | |
|--|-------------------------------|--|-------------------------------|---------------------------|
| | <u>Term Benefit (SKW)</u> | <u>Reserve for Replacement (SKU)</u> | <u>Warehouse (CJA)</u> | <u>Blake LL (CJJ)</u> |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 362,483 | \$ 75,039 | \$ 144,115 | \$ 505 |
| Interest receivable | 2,052 | 145 | 545 | 1 |
| Total Assets | <u>\$ 364,535</u> | <u>\$ 75,184</u> | <u>\$ 144,660</u> | <u>\$ 506</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Fund Balances: | | | | |
| Reserved for: | | | | |
| Encumbrances | - | - | - | 20,289 |
| Unreserved: | | | | |
| Undesignated (deficit) | <u>364,535</u> | <u>75,184</u> | <u>144,660</u> | <u>(19,783)</u> |
| Total Fund Balances | <u>364,535</u> | <u>75,184</u> | <u>144,660</u> | <u>506</u> |
| Total Liabilities and Fund Balances | <u>\$ 364,535</u> | <u>\$ 75,184</u> | <u>\$ 144,660</u> | <u>\$ 506</u> |

| CAPITAL PROJECTS FUNDS | | | Total Nonmajor Governmental Funds (see Exhibit C) |
|------------------------|---------------------------------------|-----------------------------------|---|
| PAL (CLL) | Kaiser Commerce Center (CJX) | Redlands Citrus Plaza (CAA) | |
| \$ 428 2 | \$ 101,235 576 | \$ 44,889 210 | \$ 728,694 3,531 |
| <u>\$ 430</u> | <u>\$ 101,811</u> | <u>\$ 45,099</u> | <u>\$ 732,225</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| - | - | - | 20,289 |
| <u>430</u> | <u>101,811</u> | <u>45,099</u> | <u>711,936</u> |
| <u>430</u> | <u>101,811</u> | <u>45,099</u> | <u>732,225</u> |
| <u>\$ 430</u> | <u>\$ 101,811</u> | <u>\$ 45,099</u> | <u>\$ 732,225</u> |

County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
June 30, 2003

| | <u>SPECIAL REVENUE FUNDS</u> | | <u>CAPITAL PROJECTS FUNDS</u> | |
|---|-------------------------------|--|-------------------------------|---------------------------|
| | <u>Term Benefit (SKW)</u> | <u>Reserve for Replacement (SKU)</u> | <u>Warehouse (CJA)</u> | <u>Blake LL (CJJ)</u> |
| REVENUES | | | | |
| Investment earnings | \$ 11,163 | \$ 184 | \$ 2,799 | \$ 41 |
| Other | - | 75,000 | - | 483 |
| Total Revenues | 11,163 | 75,184 | 2,799 | 524 |
| EXPENDITURES | | | | |
| Services and supplies | - | - | - | - |
| Capital outlay | - | - | 1,064 | 5,477 |
| Total Expenditures | - | - | 1,064 | 5,477 |
| Excess of Revenues Over (Under) Expenditures | 11,163 | 75,184 | 1,735 | (4,953) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfer in | - | - | 73,000 | 5,441 |
| Total Other Financing Sources (Uses) | - | - | 73,000 | 5,441 |
| Net Change in Fund Balances | 11,163 | 75,184 | 74,735 | 488 |
| Fund Balances - beginning | 353,372 | - | 69,925 | 18 |
| Fund Balances - ending | <u>\$ 364,535</u> | <u>\$ 75,184</u> | <u>\$ 144,660</u> | <u>\$ 506</u> |

| CAPITAL PROJECTS FUNDS | | | Total Nonmajor Governmental Funds (see Exhibit D) |
|------------------------|---------------------------------------|-----------------------------------|---|
| PAL (CLL) | Kaiser Commerce Center (CJX) | Redlands Citrus Plaza (CAA) | |
| \$ (9) | \$ 1,811 | \$ 267 | \$ 16,256 |
| - | 100,000 | 98,590 | 274,073 |
| (9) | 101,811 | 98,857 | 290,329 |
| - | - | 53,758 | 53,758 |
| - | - | - | 6,541 |
| - | - | 53,758 | 60,299 |
| (9) | 101,811 | 45,099 | 230,030 |
| - | - | - | 78,441 |
| - | - | - | 78,441 |
| (9) | 101,811 | 45,099 | 308,471 |
| 439 | - | - | 423,754 |
| \$ 430 | \$ 101,811 | \$ 45,099 | \$ 732,225 |



**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
CONSOLIDATED FIRE**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 70
Consolidated Fire
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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 70 - Consolidated Fire

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 70 - Consolidated Fire (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 70 - Consolidated Fire, as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on pages 21 - 24 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

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The County of San Bernardino Special District County Service Area No. 70 - Consolidated Fire has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CSA's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the component unit financial statements taken as a whole.

September 26, 2003

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**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Statement of Net Assets
June 30, 2003**

ASSETS

| | |
|-------------------------------------|------------------|
| Cash and cash equivalents | \$ 9,369,318 |
| Accounts receivable | 203,471 |
| Interest receivable | 69,604 |
| Taxes receivable | 614,533 |
| Due from other governments | 1,832,578 |
| Capital assets, net of depreciation | <u>1,432,697</u> |

| | |
|--------------|-------------------|
| Total Assets | <u>13,522,201</u> |
|--------------|-------------------|

LIABILITIES

| | |
|-------------------------------|----------------|
| Accounts payable | 280,907 |
| Salaries and benefits payable | 1,192,733 |
| Compensated absences payable | 3,459,949 |
| Deferred revenue | 466,000 |
| Interest payable | 2,343 |
| Long-term liabilities: | |
| Due within one year | <u>244,307</u> |

| | |
|-------------------|------------------|
| Total Liabilities | <u>5,646,239</u> |
|-------------------|------------------|

NET ASSETS

| | |
|---|------------------|
| Invested in capital assets, net of related debt | 1,188,390 |
| Unrestricted | <u>6,687,572</u> |

| | |
|------------------|---------------------|
| Total Net Assets | <u>\$ 7,875,962</u> |
|------------------|---------------------|

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Statement of Activities
For the Year Ended June 30, 2003**

EXPENSES

| | |
|------------------------|-------------------|
| Salaries and benefits | \$ 10,222,338 |
| Services and supplies | 5,920,557 |
| Depreciation | 328,741 |
| Interest | 25,131 |
| Other | 73 |
| Total Program Expenses | <u>16,496,840</u> |

PROGRAM REVENUES

| | |
|------------------------------------|--------------------|
| Charges for services | 5,288,361 |
| Operating grants and contributions | 1,220,327 |
| Net Program Expense | <u>(9,988,152)</u> |

GENERAL REVENUES

| | |
|----------------------------------|------------------|
| Property taxes | 4,269,110 |
| Other taxes | 223,542 |
| Fines, forfeitures and penalties | 42,701 |
| Federal assistance | 351,426 |
| State assistance | 667,551 |
| Investment earnings | 391,833 |
| Loss on sale of capital assets | (203) |
| Other | 3,053,882 |
| Total General Revenues | <u>8,999,842</u> |

| | |
|----------------------|-----------|
| Change in Net Assets | (988,310) |
|----------------------|-----------|

| | |
|-------------------------------|------------------|
| Net Assets - beginning | <u>8,864,272</u> |
|-------------------------------|------------------|

| | |
|----------------------------|----------------------------|
| Net Assets - ending | <u><u>\$ 7,875,962</u></u> |
|----------------------------|----------------------------|

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Balance Sheet
Governmental Funds
June 30, 2003**

| | <u>SPECIAL REVENUE FUNDS</u> | |
|--------------------------------------|--|---|
| | <u>Equipment Replacement (SKK)</u> | <u>Termination Benefits (SKL)</u> |
| ASSETS | | |
| Cash and cash equivalents | \$ 4,151,524 | \$ 2,221,903 |
| Due from other governments | - | - |
| Accounts receivable | - | - |
| Interest receivable | 23,397 | 12,433 |
| Taxes receivable | - | - |
| | <hr/> | <hr/> |
| Total Assets | <u>\$ 4,174,921</u> | <u>\$ 2,234,336</u> |
| LIABILITIES AND FUND BALANCES | | |
| Liabilities: | | |
| Accounts payable | \$ - | \$ - |
| Salaries and benefits payable | - | - |
| Deferred revenue | - | - |
| Due to other governments | - | - |
| | <hr/> | <hr/> |
| Total Liabilities | <hr/> - | <hr/> - |
| Fund Balances: | | |
| Reserved for: | | |
| Encumbrances | 35,365 | - |
| Unreserved: | | |
| Undesignated | <u>4,139,556</u> | <u>2,234,336</u> |
| | <hr/> | <hr/> |
| Total Fund Balances | <u>4,174,921</u> | <u>2,234,336</u> |
| | <hr/> | <hr/> |
| Total Liabilities and Fund Balances | <u>\$ 4,174,921</u> | <u>\$ 2,234,336</u> |

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

Property tax revenue

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Capital lease
Accrued interest
Compensated absences

Net assets of governmental funds

The accompanying notes are an integral part of these financial statements.

| SPECIAL REVENUE FUNDS | | TOTAL NONMAJOR GOVERNMENTAL FUNDS | | Total Governmental Funds |
|---------------------------------------|---------------------|--|----------------------|--------------------------------|
| Office of Justice Program (SKT) | General (SKX) | | | |
| \$ 466,391 | \$ 2,143,145 | \$ 386,355 | \$ 9,369,318 | |
| - | 2,049,867 | - | 2,049,867 | |
| - | 203,471 | - | 203,471 | |
| 1,444 | 31,151 | 1,179 | 69,604 | |
| - | 257,644 | - | 257,644 | |
| <u>\$ 467,835</u> | <u>\$ 4,685,278</u> | <u>\$ 387,534</u> | <u>\$ 11,949,904</u> | |
| | | | | |
| \$ - | \$ 273,745 | \$ 7,162 | \$ 280,907 | |
| - | 1,192,733 | - | 1,192,733 | |
| 466,000 | - | - | 466,000 | |
| - | 150,674 | 66,615 | 217,289 | |
| <u>466,000</u> | <u>1,617,152</u> | <u>73,777</u> | <u>2,156,929</u> | |
| | | | | |
| - | 476,291 | 77,852 | 589,508 | |
| 1,835 | 2,591,835 | 235,905 | 9,203,467 | |
| 1,835 | 3,068,126 | 313,757 | 9,792,975 | |
| <u>\$ 467,835</u> | <u>\$ 4,685,278</u> | <u>\$ 387,534</u> | | |
| | | | 1,432,697 | |
| | | | 356,889 | |
| | | | (244,307) | |
| | | | (2,343) | |
| | | | <u>(3,459,949)</u> | |
| | | | <u>\$ 7,875,962</u> | |

County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

| | SPECIAL REVENUE FUNDS | |
|--|--|---|
| | Equipment Replacement (SKK) | Termination Benefits (SKL) |
| REVENUES | | |
| Property taxes | \$ - | \$ - |
| Service fees | - | - |
| Special assessments | - | - |
| Other taxes | - | - |
| Fines, forfeitures and penalties | - | - |
| Federal/governmental assistance | - | - |
| State assistance | - | - |
| Investment earnings | 143,839 | 71,059 |
| Contributions | - | - |
| Other | - | - |
| Total Revenues | <u>143,839</u> | <u>71,059</u> |
| EXPENDITURES | | |
| Salaries and benefits | - | - |
| Services and supplies | - | - |
| Miscellaneous | - | - |
| Debt service: | | |
| Principal | - | - |
| Interest | - | - |
| Capital outlay | 1,711,197 | - |
| Total Expenditures | <u>1,711,197</u> | <u>-</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(1,567,358)</u> | <u>71,059</u> |
| OTHER FINANCING SOURCES (USES) | | |
| Sale of capital assets | - | - |
| Transfer in | 663,740 | - |
| Transfer out | (555,000) | - |
| Total Other Financing Sources (Uses) | <u>108,740</u> | <u>-</u> |
| Net Change in Fund Balances | (1,458,618) | 71,059 |
| Fund Balances - beginning | <u>5,633,539</u> | <u>2,163,277</u> |
| Fund Balances - ending | <u>\$ 4,174,921</u> | <u>\$ 2,234,336</u> |

The accompanying notes are an integral part of these financial statements.

| SPECIAL REVENUE FUNDS | | TOTAL NONMAJOR GOVERNMENTAL FUNDS | Total Governmental Funds |
|---------------------------------------|------------------|--|--------------------------------|
| Office of Justice Program (SKT) | General (SKX) | | |
| \$ - | 4,271,784 | \$ - | \$ 4,271,784 |
| - | 5,032,765 | - | 5,032,765 |
| - | 255,596 | - | 255,596 |
| - | 223,542 | - | 223,542 |
| - | 42,701 | - | 42,701 |
| - | 351,426 | - | 351,426 |
| - | 434,874 | 232,677 | 667,551 |
| 1,835 | 172,365 | 2,735 | 391,833 |
| - | 2,508 | - | 2,508 |
| - | 3,011,882 | 42,000 | 3,053,882 |
| 1,835 | 13,799,443 | 277,412 | 14,293,588 |
| - | 10,209,338 | - | 10,209,338 |
| - | 3,821,464 | 187,917 | 4,009,381 |
| - | - | 73 | 73 |
| - | 231,016 | - | 231,016 |
| - | 27,345 | - | 27,345 |
| - | 572,414 | - | 2,283,611 |
| - | 14,861,577 | 187,990 | 16,760,764 |
| 1,835 | (1,062,134) | 89,422 | (2,467,176) |
| - | 12,352 | - | 12,352 |
| - | 1,520,822 | 200,000 | 2,384,562 |
| - | (628,200) | - | (1,183,200) |
| - | 904,974 | 200,000 | 1,213,714 |
| 1,835 | (157,160) | 289,422 | (1,253,462) |
| - | 3,225,286 | 24,335 | 11,046,437 |
| \$ 1,835 | \$ 3,068,126 | \$ 313,757 | \$ 9,792,975 |

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Funds \$ (1,253,462)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period. 43,694

The net effect of capital outlay transactions to increase net assets.
Capital grants and contributions 16,457

The net effect of capital outlay transactions to decrease net assets.
Loss on sale of capital assets (203)
Sales proceeds (12,352)

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.
Property tax revenue - current year 356,889
Property tax revenue - prior year (359,563)

Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities - both current and long-term - are reported in the statement of net assets.
Increase in compensated absences payable (13,000)
Decrease in interest payable 2,214
Decrease in capital lease payable 231,016

Change in net assets of governmental activities \$ (988,310)

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Statement of Fiduciary Net Assets
Agency Fund
June 30, 2003

ASSETS

| | |
|----------------------|-------------------|
| Cash and investments | \$ 411,016 |
| Total Assets | <u>\$ 411,016</u> |

LIABILITIES

| | |
|--------------------------|-------------------|
| Due to other governments | \$ 57,959 |
| Due to bondholders | <u>353,057</u> |
| Total Liabilities | <u>\$ 411,016</u> |

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 70 - Consolidated Fire was established by an act of the Board of Supervisors of the County of San Bernardino (the County) to provide fire management, administration, ambulance billing, centralized vehicle maintenance and warehousing, communications, training, fire prevention, hazardous materials handling, household waste handling, information services, human resources, and emergency services.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 - Consolidated Fire of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue fund* labeled "Equipment Replacement" is for the replacement of fire equipment.

The *special revenue fund* labeled "Termination Benefits" is used for the buyout of holiday, sick and etc., time available at retirement for each fire organization.

The *special revenue fund* labeled "Office of Justice Program" is for the purchase of first responder equipment for County Fire and Hazmat, the Sheriff's Office, the cities of Barstow, Colton, Hesperia, Redlands, Rialto and Victorville, the Interagency Team and the West End Hazmat Team.

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------------|--------------|
| Infrastructure | 40 - 60 |
| Structures and improvements | 5 - 40 |
| Equipment and vehicles | 4 - 15 |

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The CSA is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2003 was as follows:

| <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|------------------------------|------------------|------------------|---------------------------|
| \$ 3,446,949 | \$ 1,631,086 | \$ 1,618,086 | \$ 3,459,949 |

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$43,694 difference are as follows:

| | |
|---|------------------|
| Capital outlay | \$ 372,435 |
| Depreciation expense | <u>(328,741)</u> |
| Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | <u>\$ 43,694</u> |

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|---|------------------------------|------------------|--------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,450 | \$ - | \$ - | \$ 1,450 |
| Total capital assets, not being depreciated | <u>1,450</u> | <u>-</u> | <u>-</u> | <u>1,450</u> |
| Capital assets, being depreciated: | | | | |
| Vehicles | 3,379,973 | 498,808 | (126,273) | 3,752,508 |
| Equipment | 490,557 | 66,911 | (25,545) | 531,923 |
| Total capital assets, being depreciated | <u>3,870,530</u> | <u>565,719</u> | <u>(151,818)</u> | <u>4,284,431</u> |
| Less accumulated depreciation for: | | | | |
| Vehicles | (2,242,493) | (442,059) | 126,273 | (2,558,279) |
| Equipment | (244,386) | (63,509) | 12,990 | (294,905) |
| Total accumulated depreciation | <u>(2,486,879)</u> | <u>(505,568)</u> | <u>139,263</u> | <u>(2,853,184)</u> |
| Total Capital assets, being depreciated, net | <u>1,383,651</u> | <u>60,151</u> | <u>(12,555)</u> | <u>1,431,247</u> |
| Governmental activities capital assets, net | <u>\$1,385,101</u> | <u>\$ 60,151</u> | <u>\$ (12,555)</u> | <u>\$ 1,432,697</u> |

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Notes to Financial Statements
June 30, 2003**

NOTE 4: CAPITAL LEASE OBLIGATION

The CSA entered into a lease agreement during the year ended June 30, 1999 for a John Deere Motor Grader. The CSA will acquire all rights and title to the equipment after the final lease payment. The cost of the motor grader is included in Capital assets, net of depreciation on Exhibit "A".

Changes in long-term liabilities:

Long-term liability activity for the year ended June 30, 2003, was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|---------------|------------------------------|------------------|---------------------|---------------------------|--------------------------------|
| Capital lease | <u>\$ 475,323</u> | <u>\$ -</u> | <u>\$ (231,016)</u> | <u>\$ 244,307</u> | <u>\$ 244,307</u> |

The following is a schedule of the future minimum lease payments as of June 30, 2003.

| <u>Year Ended June 30,</u> | <u>Fire Engines</u> |
|----------------------------|---------------------|
| 2004 | <u>\$ 258,362</u> |
| Total payments | 258,362 |
| Less: interest | (14,055) |
| Total Principal | <u>\$ 244,307</u> |

NOTE 5: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Notes to Financial Statements
June 30, 2003**

NOTE 5: RETIREMENT PLAN (continued)

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. The CSA paid \$3,597,414 to the plan as the employer's share. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

| Year Ended June 30, | Annual Pension Cost (in thousands) | Percentage Contributed |
|--------------------------------|---|-----------------------------------|
| 2001 | 58,572 | 100% |
| 2002 | 69,245 | 100% |
| 2003 | 68,361 | 100% |

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Notes to Financial Statements
June 30, 2003**

NOTE 6: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 7: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). Insurance premiums totaled \$2,473,974 for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Notes to Financial Statements
June 30, 2003**

NOTE 7: RISK MANAGEMENT (continued)

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

| <u>Fiscal Year</u> | <u>Beginning of Fiscal Year Liability (in thousands)</u> | <u>Current Year Claims and Changes in Estimates (in thousands)</u> | <u>Claims Payments (in thousands)</u> | <u>End of Fiscal Year Liability (in thousands)</u> |
|--------------------|--|--|---|--|
| 2002 - 2003 | \$ 95,288 | \$ 23,647 | \$ (32,171) | \$ 86,764 |
| 2001 - 2002 | \$ 61,172 | \$ 61,832 | \$ (27,716) | \$ 95,288 |

NOTE 8: TRANSFERS IN/OUT

Interfund transfers are transactions used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital projects funds. At June 30, 2003, the CSA made the following interfund transfers in and out:

| | |
|---------------|-----------------------------------|
| | <u>Transfer in:</u> |
| | Equipment Replacement (SKK) |
| Transfer out: | |
| General (SKX) | <u>\$ 20,000</u> |

NOTE 9: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 10: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Budgetary Comparison Schedule - Special Revenue Funds
For the Year Ended June 30, 2003

| | Special Revenue Fund | | | |
|--|-----------------------------|-----------------------------|----------------------------|---|
| | Equipment Replacement (SKK) | | | |
| | Original Budget | Final Budget | Actual | Variance with Final Budget Favorable (Unfavorable) |
| REVENUES | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Service fees | - | - | - | - |
| Special assessments | - | - | - | - |
| Other taxes | - | - | - | - |
| Fines, forfeitures and penalties | - | - | - | - |
| Federal/governmental assistance | - | - | - | - |
| State assistance | - | - | - | - |
| Investment earnings | 757,857 | 757,857 | 143,839 | (614,018) |
| Contributions | - | - | - | - |
| Other | - | - | - | - |
| Total Revenues | <u>757,857</u> | <u>757,857</u> | <u>143,839</u> | <u>(614,018)</u> |
| EXPENDITURES | | | | |
| Salaries and benefits | - | - | - | - |
| Services and supplies | 1,729,925 | 1,747,925 | - | 1,747,925 |
| Debt service: | | | | |
| Principal | - | - | - | - |
| Interest | - | - | - | - |
| Capital outlay | 4,582,179 | 4,244,179 | 1,711,197 | 2,532,982 |
| Total Expenditures | <u>6,312,104</u> | <u>5,992,104</u> | <u>1,711,197</u> | <u>4,280,907</u> |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | <u>(5,554,247)</u> | <u>(5,234,247)</u> | <u>(1,567,358)</u> | <u>3,666,889</u> |
| OTHER FINANCING SOURCES | | | | |
| (USES) | | | | |
| Sale of capital assets | - | - | - | - |
| Transfer in | 933,156 | 933,156 | 663,740 | (269,416) |
| Transfer out | (235,000) | (555,000) | (555,000) | - |
| Total Other Financing Sources | | | | |
| (Uses) | <u>698,156</u> | <u>378,156</u> | <u>108,740</u> | <u>(269,416)</u> |
| Net Change in Fund Balances | <u><u>\$(4,856,091)</u></u> | <u><u>\$(4,856,091)</u></u> | <u><u>(1,458,618)</u></u> | <u><u>\$ 3,397,473</u></u> |
| Fund Balances - beginning | | | <u>5,633,539</u> | |
| Fund Balances - ending | | | <u><u>\$ 4,174,921</u></u> | |

| Special Revenue Fund | | | |
|----------------------------|----------------------|--------------------|---|
| Termination Benefits (SKL) | | | |
| Original Budget | Final Budget | Actual | Variance with Final Budget Favorable (Unfavorable) |
| \$ - | \$ - | \$ - | \$ - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| 229,728 | 229,728 | 71,059 | (158,669) |
| - | - | - | - |
| - | - | - | - |
| 229,728 | 229,728 | 71,059 | (158,669) |
| 2,357,151 | 2,357,151 | - | 2,357,151 |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| 2,357,151 | 2,357,151 | - | 2,357,151 |
| (2,127,423) | (2,127,423) | 71,059 | 2,198,482 |
| - | - | - | - |
| 206,876 | 206,876 | - | (206,876) |
| - | - | - | - |
| 206,876 | 206,876 | - | (206,876) |
| <u>\$(1,920,547)</u> | <u>\$(1,920,547)</u> | 71,059 | <u>\$ 1,991,606</u> |
| | | 2,163,277 | |
| | | <u>\$2,234,336</u> | |

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Budgetary Comparison Schedule - Special Revenue Funds
For the Year Ended June 30, 2003

| | Special Revenue Fund | | | |
|---|---------------------------------|--------------|----------|---|
| | Office of Justice Program (SKT) | | | |
| | Original Budget | Final Budget | Actual | Variance with Final Budget Favorable (Unfavorable) |
| REVENUES | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Service fees | - | - | - | - |
| Special assessments | - | - | - | - |
| Other taxes | - | - | - | - |
| Fines, forfeitures and penalties | - | - | - | - |
| Federal/governmental assistance | - | - | - | - |
| State assistance | - | - | - | - |
| Investment earnings | - | - | 1,835 | 1,835 |
| Contributions | - | - | - | - |
| Other | - | - | - | - |
| Total Revenues | - | - | 1,835 | 1,835 |
| EXPENDITURES | | | | |
| Salaries and benefits | - | - | - | - |
| Services and supplies | - | - | - | - |
| Debt service: | | | | |
| Principal | - | - | - | - |
| Interest | - | - | - | - |
| Capital outlay | - | - | - | - |
| Total Expenditures | - | - | - | - |
| Excess of Revenues Over (Under) Expenditures | - | - | 1,835 | 1,835 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of capital assets | - | - | - | - |
| Transfer in | - | - | - | - |
| Transfer out | - | - | - | - |
| Total Other Financing Sources (Uses) | - | - | - | - |
| Net Change in Fund Balances | \$ - | \$ - | 1,835 | \$ 1,835 |
| Fund Balances - beginning | | | - | |
| Fund Balances - ending | | | \$ 1,835 | |

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Budgetary Comparison Schedule - Special Revenue Funds
For the Year Ended June 30, 2003

| Special Revenue Fund | | | |
|----------------------|--------------|--------------------|---|
| General (SKX) | | | |
| Original Budget | Final Budget | Actual | Variance with Final Budget Favorable (Unfavorable) |
| \$ 4,335,111 | \$ 4,335,111 | \$4,271,784 | \$ (63,327) |
| 4,923,971 | 4,923,971 | 5,032,765 | 108,794 |
| 230,000 | 230,000 | 255,596 | 25,596 |
| - | - | 223,542 | 223,542 |
| 381,934 | 381,934 | 42,701 | (339,233) |
| 51,000 | 51,000 | 351,426 | 300,426 |
| - | - | 434,874 | 434,874 |
| 150,000 | 150,000 | 172,365 | 22,365 |
| 1,925 | 1,925 | 2,508 | 583 |
| 3,426,272 | 3,729,596 | 3,011,882 | (717,714) |
| 13,500,213 | 13,803,537 | 13,799,443 | (4,094) |
| 10,046,011 | 10,649,051 | 10,209,338 | 439,713 |
| 3,881,873 | 4,263,157 | 3,821,464 | 441,693 |
| 231,017 | 231,017 | 231,016 | 1 |
| 32,345 | 32,345 | 27,345 | 5,000 |
| 752,600 | 782,600 | 572,414 | 210,186 |
| 14,943,846 | 15,958,170 | 14,861,577 | 1,096,593 |
| (1,443,633) | (2,154,633) | (1,062,134) | 1,092,499 |
| - | - | 12,352 | 12,352 |
| 1,800,902 | 2,028,902 | 1,520,822 | (508,080) |
| (1,263,142) | (780,142) | (628,200) | 151,942 |
| 537,760 | 1,248,760 | 904,974 | (343,786) |
| \$ (905,873) | \$ (905,873) | (157,160) | \$ 748,713 |
| | | 3,225,286 | |
| | | <u>\$3,068,126</u> | |

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Combining Balance Sheet - Nonmajor Governmental Funds
For the Year Ended June 30, 2003

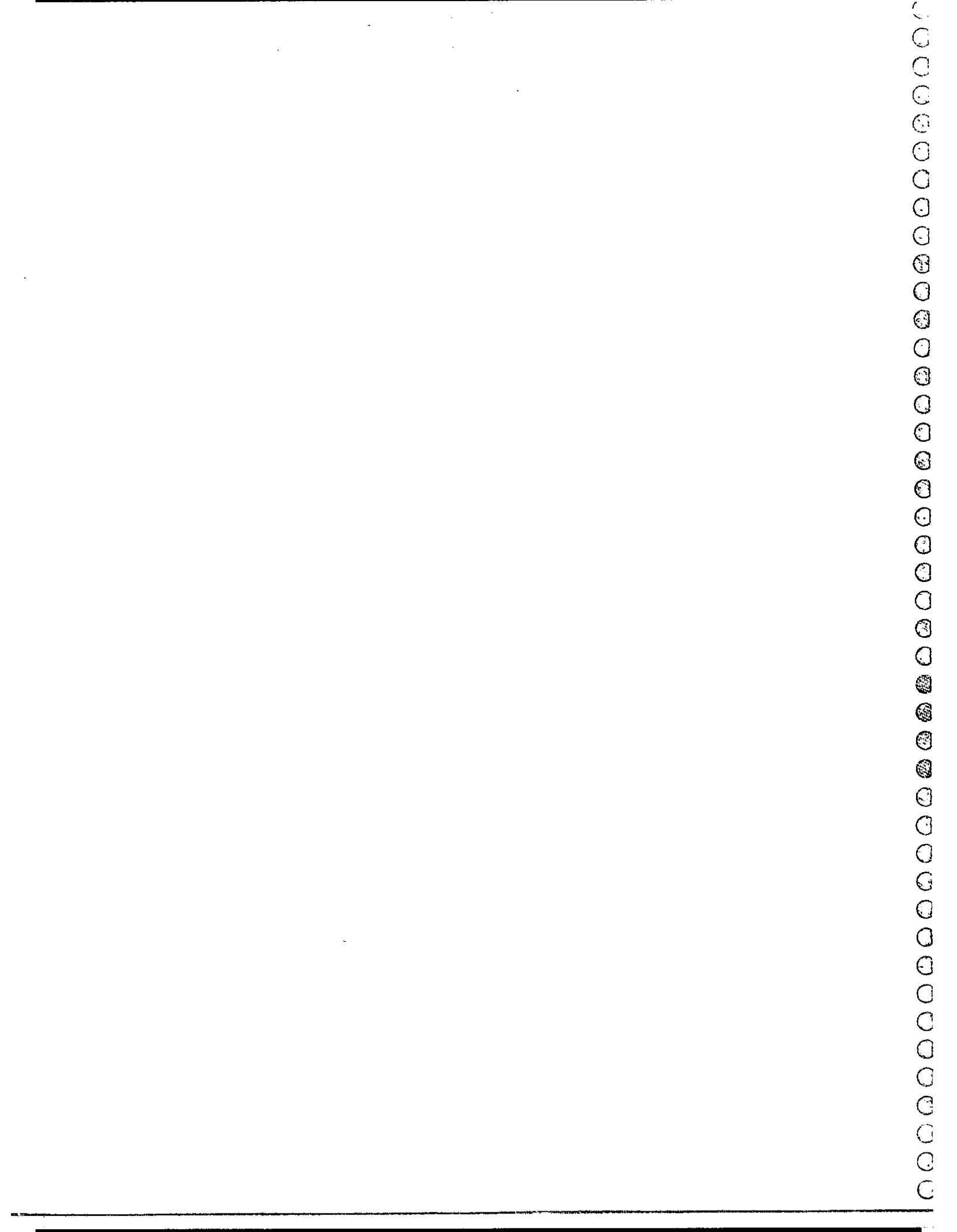
| | SPECIAL REVENUE FUNDS | | |
|--------------------------------------|-----------------------|---------------------------------|---------------------------------|
| | Recycle (RKD) | Violation Penalties (RKE) | Dead Tree Abatement (SLH) |
| ASSETS | | | |
| Cash and cash equivalents | \$ 144,259 | \$ 42,047 | \$ 200,003 |
| Interest receivable | 1,070 | 99 | 10 |
| Total Assets | <u>\$ 145,329</u> | <u>\$ 42,146</u> | <u>\$ 200,013</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable | \$ 7,162 | \$ - | \$ - |
| Due to other governments | 66,615 | - | - |
| Total Liabilities | <u>73,777</u> | <u>-</u> | <u>-</u> |
| Fund Balances: | | | |
| Reserved for: | | | |
| Encumbrances | 1,535 | - | - |
| Unreserved: | | | |
| Undesignated (deficit) | 70,017 | 42,146 | 200,013 |
| Total Fund Balances | <u>71,552</u> | <u>42,146</u> | <u>200,013</u> |
| Total Liabilities and Fund Balances | <u>\$ 145,329</u> | <u>\$ 42,146</u> | <u>\$ 200,013</u> |

| <u>CAPITAL PROJECTS FUNDS</u> | | Total Nonmajor Governmental Funds (see Exhibit C) |
|--------------------------------|--------------------------|--|
| <u>Communication (CED)</u> | <u>Trailer (CHN)</u> | |
| \$ 39 | \$ 7 | \$ 386,355 |
| - | - | 1,179 |
| <u>\$ 39</u> | <u>\$ 7</u> | <u>\$ 387,534</u> |
| | | |
| \$ - | \$ - | \$ 7,162 |
| - | - | 66,615 |
| | | |
| - | - | 73,777 |
| | | |
| 76,317 | - | 77,852 |
| (76,278) | 7 | 235,905 |
| | | |
| 39 | 7 | 313,757 |
| | | |
| <u>\$ 39</u> | <u>\$ 7</u> | <u>\$ 387,534</u> |

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2003

| | SPECIAL REVENUE FUNDS | | |
|---|-----------------------|---------------------------------|---------------------------------|
| | Recycle (RKD) | Violation Penalties (RKE) | Dead Tree Abatement (SLH) |
| REVENUES | | | |
| State assistance | \$ 232,677 | \$ - | \$ - |
| Investment earnings | 2,576 | 146 | 13 |
| Other | - | 42,000 | - |
| Total Revenues | 235,253 | 42,146 | 13 |
| EXPENDITURES | | | |
| Services and supplies | 187,917 | - | - |
| Miscellaneous | - | - | - |
| Total Expenditures | 187,917 | - | - |
| Excess of Revenues Over (Under) Expenditures | 47,336 | 42,146 | 13 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfer in | - | - | 200,000 |
| Total Other Financing Sources (Uses) | - | - | 200,000 |
| Net Change in Fund Balances | 47,336 | 42,146 | 200,013 |
| Fund Balances - beginning | 24,216 | - | - |
| Fund Balances - ending | \$ 71,552 | \$ 42,146 | \$ 200,013 |

| CAPITAL PROJECTS FUNDS | | Total Nonmajor Governmental Funds (see Exhibit D) |
|------------------------|------------------|--|
| Communication (CED) | Trailer (CHN) | |
| \$ - | \$ - | \$ 232,677 |
| - | - | 2,735 |
| - | - | 42,000 |
| - | - | 277,412 |
| - | - | 187,917 |
| 56 | 17 | 73 |
| 56 | 17 | 187,990 |
| (56) | (17) | 89,422 |
| - | - | 200,000 |
| - | - | 200,000 |
| (56) | (17) | 289,422 |
| 95 | 24 | 24,335 |
| \$ 39 | \$ 7 | \$ 313,757 |



**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
ZONES B AND C**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 70
Zones B and C
Table of Contents**

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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 70 - Zones B and C

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 - Zones B and C (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the County of San Bernardino Special District County Service Area No. 70 - Zones B and C, as of June 30, 2003, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The County of San Bernardino Special District County Service Area No. 70 - Zones B and C has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

MEMBERS

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County of San Bernardino Special Districts
County Service Area No. 70 - Zones B and C
Statement of Net Assets
June 30, 2003

| | Sewer Services Zone B | Water Services Zone C | Totals |
|--|--------------------------|--------------------------|---------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 872,194 | \$ 1,228,050 | \$ 2,100,244 |
| Accounts receivable, net | 103,337 | 112,781 | 216,118 |
| Due from other governments | 32,130 | 28,535 | 60,665 |
| Interest receivable | 4,252 | 6,204 | 10,456 |
| Taxes receivable | 5,048 | 1,647 | 6,695 |
| Total Current Assets | <u>1,016,961</u> | <u>1,377,217</u> | <u>2,394,178</u> |
| Noncurrent assets: | | | |
| Capital assets: | | | |
| Land | - | 160,000 | 160,000 |
| Improvement to land | 5,586,340 | 6,601,562 | 12,187,902 |
| Vehicles | 41,846 | 22,349 | 64,195 |
| Equipment | 15,410 | 5,583 | 20,993 |
| Construction in progress | 36,182 | - | 36,182 |
| Accumulated depreciation | (2,340,289) | (2,948,619) | (5,288,908) |
| Total Noncurrent Assets | <u>3,339,489</u> | <u>3,840,875</u> | <u>7,180,364</u> |
| Total Assets | <u>4,356,450</u> | <u>5,218,092</u> | <u>9,574,542</u> |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts payable | 7,213 | 14,151 | 21,364 |
| Accrued interest payable | 1,050 | 4,163 | 5,213 |
| Due to other funds | - | 1,506 | 1,506 |
| Matured bonds payable | 5,000 | 5,000 | 10,000 |
| Total Current Liabilities | <u>13,263</u> | <u>24,820</u> | <u>38,083</u> |
| Noncurrent liabilities | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Liabilities | <u>13,263</u> | <u>24,820</u> | <u>38,083</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 3,334,489 | 3,835,875 | 7,170,364 |
| Unrestricted | <u>1,008,698</u> | <u>1,357,397</u> | <u>2,366,095</u> |
| Total Net Assets | <u>\$ 4,343,187</u> | <u>\$ 5,193,272</u> | <u>\$ 9,536,459</u> |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zones B and C
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2003

| | Sewer Services Zone B | Water Services Zone C | Totals |
|---|--------------------------|--------------------------|---------------------|
| OPERATING REVENUES | | | |
| Sanitation services | \$ 922,602 | \$ - | \$ 922,602 |
| Water sales | - | 906,793 | 906,793 |
| Connection fees | 72,826 | 28,932 | 101,758 |
| Other services | 17,802 | 57,145 | 74,947 |
| Total Operating Revenues | <u>1,013,230</u> | <u>992,870</u> | <u>2,006,100</u> |
| OPERATING EXPENSES | | | |
| Professional services | 42,293 | 37,743 | 80,036 |
| Salaries and benefits | 552,619 | 331,847 | 884,466 |
| Services and supplies | 163,465 | 239,623 | 403,088 |
| Rents and leases | 13,955 | 2,860 | 16,815 |
| Utilities | 80,551 | 135,533 | 216,084 |
| Depreciation | 241,229 | 130,905 | 372,134 |
| Total Operating Expenses | <u>1,094,112</u> | <u>878,511</u> | <u>1,972,623</u> |
| Operating Income (Loss) | <u>(80,882)</u> | <u>114,359</u> | <u>33,477</u> |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Investment earnings | 20,787 | 31,992 | 52,779 |
| Property taxes | 60,237 | 2,354 | 62,591 |
| Special assessments | 35,331 | 37,235 | 72,566 |
| State assistance | 1,279 | - | 1,279 |
| Penalties | 9,238 | 17,441 | 26,679 |
| Other | 660 | 9,018 | 9,678 |
| Total Nonoperating Revenues | <u>127,532</u> | <u>98,040</u> | <u>225,572</u> |
| Change in Net Assets | 46,650 | 212,399 | 259,049 |
| Net Assets - beginning | <u>4,296,537</u> | <u>4,980,873</u> | <u>9,277,410</u> |
| Net Assets - ending | <u>\$ 4,343,187</u> | <u>\$ 5,193,272</u> | <u>\$ 9,536,459</u> |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zones B and C
Statement of Cash Flows
For the Year Ended June 30, 2003

| | Sewer Services Zone B | Water Services Zone C | Totals |
|---|--------------------------|--------------------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | \$ 1,029,808 | \$ 1,010,641 | \$ 2,040,449 |
| Payments to suppliers | (308,426) | (450,875) | (759,301) |
| Payments to employees | (552,619) | (331,847) | (884,466) |
| Net Cash Provided By Operating Activities | 168,763 | 227,919 | 396,682 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Property taxes | 62,489 | 1,730 | 64,219 |
| Special assessments | 35,331 | 37,235 | 72,566 |
| State assistance | 1,279 | - | 1,279 |
| Penalties | 9,238 | 17,441 | 26,679 |
| Other nonoperating revenues | 660 | 9,018 | 9,678 |
| Net Cash Provided By Noncapital Financing Activities | 108,997 | 65,424 | 174,421 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Acquisition of capital assets | (14,120) | - | (14,120) |
| Other | 909 | - | 909 |
| Net Cash (Used For) Capital and Related Financing Activities | (13,211) | - | (13,211) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Investment earnings | 24,430 | 31,481 | 55,911 |
| Net Cash Provided By Investing Activities | 24,430 | 31,481 | 55,911 |
| Net Increase in Cash and Cash Equivalents | 288,979 | 324,824 | 613,803 |
| Cash and Cash Equivalents - beginning of the year | 583,215 | 903,226 | 1,486,441 |
| Cash and Cash Equivalents - end of the year | \$ 872,194 | \$ 1,228,050 | \$ 2,100,244 |

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zones B and C
Statement of Cash Flows
For the Year Ended June 30, 2003**

| | Sewer Services Zone B | Water Services Zone C | Totals |
|--|--------------------------|--------------------------|-------------------|
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | | |
| Operating income (loss) | \$ (80,882) | \$ 114,359 | \$ 33,477 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | |
| Depreciation expense | 241,229 | 130,905 | 372,134 |
| Change in assets and liabilities: | | | |
| Increase in accounts receivable, net | (9,533) | (10,005) | (19,538) |
| Decrease in due from other funds | - | 10,340 | 10,340 |
| Decrease in due from other governments | 36,451 | 17,436 | 53,887 |
| Decrease in accounts payable | (8,162) | (36,622) | (44,784) |
| Decrease in due to other funds | (10,340) | - | (10,340) |
| Increase in due to other governments | - | 1,506 | 1,506 |
| Net Cash Provided By Operating Activities | <u>\$ 168,763</u> | <u>\$ 227,919</u> | <u>\$ 396,682</u> |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zones B and C
Statement of Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2003

Assets

| | |
|---------------------------|------------|
| Cash and cash equivalents | \$ 259,517 |
|---------------------------|------------|

| | |
|--------------|-------------------|
| Total Assets | <u>\$ 259,517</u> |
|--------------|-------------------|

Liabilities

| | |
|--------------------|------------|
| Due to bondholders | \$ 259,517 |
|--------------------|------------|

| | |
|-------------------|-------------------|
| Total Liabilities | <u>\$ 259,517</u> |
|-------------------|-------------------|

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zones B and C
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 70 Zone B and C was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code. The CSA 70 Zone B is located 15 miles northwest of Victorville and provides sewer service to 2,215 Equivalent Dwelling Units (EDUs). The CSA 70 Zone C is located fifteen miles northwest of Victorville and currently provides water service to 2,114 users. It maintains seven wells and provides five million gallons of storage.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 Zone B and C of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Measurement focus, basis of accounting, and financial statement presentation

The CSA's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major proprietary funds:

"Sewer Service" accounts for the activities of the government's sewer services.

"Water Service" accounts for the activities of the government's water services.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

County of San Bernardino Special Districts
County Service Area No. 70 - Zones B and C
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

County of San Bernardino Special Districts
County Service Area No. 70 - Zones B and C
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets

Capital assets, which include property, plant, and equipment are reported in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------------|--------------|
| Structures and improvements | 5 - 40 |
| Equipment and vehicles | 4 - 15 |

Long-term obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

Although the District prepares and adopts an annual budget, budgetary information is not presented because the District is not legally required to adopt a budget.

Reclassification

Certain reclassifications and restatements have been made to the current year financial statements to conform to the proper presentation.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zones B and C
Notes to Financial Statements
June 30, 2003**

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: RECEIVABLE

At June 30, 2003, the accounts receivable were composed for the following:

| | Sewer Service Zone B | Water Services Zone C | Totals |
|------------------------------------|----------------------------|-----------------------------|-------------------|
| Accounts receivable | \$ 108,206 | \$ 132,684 | \$ 240,890 |
| Less: Allowance for Uncollectibles | <u>(4,869)</u> | <u>(19,903)</u> | <u>(24,772)</u> |
| Total Accounts Receivable, net | <u>\$ 103,337</u> | <u>\$ 112,781</u> | <u>\$ 216,118</u> |

NOTE 4: REFUNDING OF 1915 ACT BONDS

On June 30, 1994, the County's Assessment District 94-2 issued a Limited Obligation Refunding Bond (the "Assessment Bond") under the provisions of the Refunding Act of 1984 for 1915 Improvement Act Bonds for the purpose of refunding eleven prior series of assessment district bonds of the County. The prior series assessment bonds of Assessment District #90-2 amounting to \$7,010,000 were refunded. The Assessment Bonds is payable from reassessment payments, collected on assessed parcels within Assessment District 94-2, of which Assessment District #90-2 is a subarea. Exhibit D shows the cash and cash equivalents in Assessment District #90-2 reserve funds at June 30, 2003.

The County has no obligation to advance funds to pay debt service on the Assessment Bond in the event collections are insufficient. However, the County may, at its option and in its sole discretion, elect to advance available surplus funds of the County in the amount of any delinquent payments to pay debt service on the Assessment bond.

County of San Bernardino Special Districts
County Service Area No. 70 - Zones B and C
Notes to Financial Statements
June 30, 2003

NOTE 5: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|--|----------------------|--------------|-----------|-------------------|
| <u>Sewer Services (Zone B)</u> | | | | |
| Capital assets, not being depreciated: | | | | |
| Construction in progress | \$ 22,971 | \$ 14,120 | \$ (909) | \$ 36,182 |
| Total capital assets, not being depreciated | 22,971 | 14,120 | (909) | 36,182 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 5,586,340 | - | - | 5,586,340 |
| Vehicles | 41,846 | - | - | 41,846 |
| Equipment | 15,410 | - | - | 15,410 |
| Total capital assets, being depreciated | 5,643,596 | - | - | 5,643,596 |
| Less accumulated depreciation for: | | | | |
| Land improvements | (2,047,871) | (236,896) | - | (2,284,767) |
| Vehicles | (35,779) | (4,333) | - | (40,112) |
| Equipment | (15,410) | - | - | (15,410) |
| Total accumulated depreciation | (2,099,060) | (241,229) | - | (2,340,289) |
| Total capital assets, being depreciated, net | 3,544,536 | (241,229) | - | 3,303,307 |
| Total capital assets, net | \$ 3,567,507 | \$ (227,109) | \$ (909) | \$ 3,339,489 |
| <u>Water Services (Zone C)</u> | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 160,000 | \$ - | \$ - | \$ 160,000 |
| Total capital assets, not being depreciated | 160,000 | - | - | 160,000 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 6,601,562 | - | - | 6,601,562 |
| Vehicles | 22,349 | - | - | 22,349 |
| Equipment | 5,583 | - | - | 5,583 |
| Total capital assets, being depreciated | 6,629,494 | - | - | 6,629,494 |
| Less accumulated depreciation for: | | | | |
| Land improvements | (2,790,489) | (130,905) | - | (2,921,394) |
| Vehicles | (21,642) | - | - | (21,642) |
| Equipment | (5,583) | - | - | (5,583) |
| Total accumulated depreciation | (2,817,714) | (130,905) | - | (2,948,619) |
| Total capital assets, being depreciated, net | 3,811,780 | (130,905) | - | 3,680,875 |
| Total capital assets, net | \$ 3,971,780 | \$ (130,905) | \$ - | \$ 3,840,875 |

**County of San Bernardino Special Districts
County Service Area No. 70 - Zones B and C
Notes to Financial Statements
June 30, 2003**

NOTE 6: MATURED BONDS PAYABLE

In 1974, the Board of Supervisors approved the issuance of General Obligation Bonds to finance construction of a water facility. Bonds were issued under the authority provided under the County Service Area Law of the California Government Code. The matured bonds payable in Zones B and C amount to \$5,000, respectively, at June 30, 2003.

NOTE 7: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zones B and C
Notes to Financial Statements
June 30, 2003**

NOTE 7: RETIREMENT PLAN (continued)

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

| <u>Year Ended June 30,</u> | <u>Annual Pension Cost (in thousands)</u> | <u>Percentage Contributed</u> |
|--------------------------------|---|-----------------------------------|
| 2001 | 58,572 | 100% |
| 2002 | 69,245 | 100% |
| 2003 | 68,361 | 100% |

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

NOTE 8: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 9: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zones B and C
Notes to Financial Statements
June 30, 2003**

NOTE 9: RISK MANAGEMENT (continued)

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

| Fiscal Year | Beginning of Fiscal Year Liability (in thousands) | Current Year Claims and Changes in Estimates (in thousands) | Claims Payments (in thousands) | End of Fiscal Year Liability (in thousands) |
|--------------------|--|--|---|--|
| 2002 - 2003 | \$ 95,288 | \$ 23,647 | \$ (32,171) | \$ 86,764 |
| 2001 - 2002 | \$ 61,172 | \$ 61,832 | \$ (27,716) | \$ 95,288 |

NOTE 10: PENDING LITIGATION

County Service Area No. 70 - Zone C is involved in litigation concerning the allocation of water rights in the Mojave River system. While there is no direct financial liability to Zone C at stake, an adverse decision may divert some water allocations to Zone C and increase the cost of future water purchases. County Council believes the possibility of an adverse decision is reasonably possible.

NOTE 11: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
ZONE D-1 - ARROWHEAD DAM**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 70
Zone D-1 - Arrowhead Dam
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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 70 - Zone D-1 - Arrowhead Dam

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and the major fund of the County of San Bernardino Special District County Service Area No. 70 - Zone D-1 - Arrowhead Dam (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the County of San Bernardino Special District County Service Area No. 70 - Zone D-1 - Arrowhead Dam, as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

The County of San Bernardino Special District County Service Area No. 70 - Zone D-1 - Arrowhead Dam has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

County of San Bernardino Special Districts
County Service Area No. 70 - Zone D-1 - Arrowhead Dam
Statement of Net Assets
June 30, 2003

ASSETS

| | |
|-------------------------------------|------------------|
| Cash and cash equivalents | \$ 920,827 |
| Interest receivable | 4,543 |
| Taxes receivable | 44,260 |
| Capital assets, net of depreciation | <u>2,059,214</u> |
| Total Assets | <u>3,028,844</u> |

LIABILITIES

| | |
|-----------------------|---------------|
| Salaries and benefits | 2,529 |
| Compensated absences | <u>11,455</u> |
| Total Liabilities | <u>13,984</u> |

NET ASSETS

| | |
|----------------------------|----------------------------|
| Invested in capital assets | 2,059,214 |
| Unrestricted | <u>955,646</u> |
| Total Net Assets | <u><u>\$ 3,014,860</u></u> |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone D-1 - Arrowhead Dam
Statement of Activities
For the Year Ended June 30, 2003

EXPENSES

| | |
|------------------------|----------------|
| Salaries and benefits | \$ 91,306 |
| Services and supplies | 93,008 |
| Depreciation | 67,468 |
| Total Program Expenses | <u>251,782</u> |

PROGRAM REVENUES

| | |
|---------------------|------------------|
| Net Program Expense | <u>(251,782)</u> |
|---------------------|------------------|

GENERAL REVENUES

| | |
|------------------------|----------------|
| Property taxes | 309,858 |
| Other taxes | 12,250 |
| State assistance | 6,981 |
| Investment earnings | 22,841 |
| Other | 13 |
| Total General Revenues | <u>351,943</u> |

| | |
|----------------------|---------|
| Change in net assets | 100,161 |
|----------------------|---------|

| | |
|-------------------------------|------------------|
| Net Assets - beginning | <u>2,914,699</u> |
|-------------------------------|------------------|

| | |
|----------------------------|----------------------------|
| Net Assets - ending | <u><u>\$ 3,014,860</u></u> |
|----------------------------|----------------------------|

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone D-1 - Arrowhead Dam
Balance Sheet
Governmental Funds
June 30, 2003

| | SPECIAL REVENUE FUND General (SLA) | OTHER GOVERNMENTAL FUND Infrastructure (CHK) | Total Governmental Funds |
|--|--|--|--------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 855,508 | \$ 65,319 | \$ 920,827 |
| Interest receivable | 4,169 | 374 | 4,543 |
| Taxes receivable | 18,022 | - | 18,022 |
| Total Assets | <u>\$ 877,699</u> | <u>\$ 65,693</u> | <u>\$ 943,392</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Salaries and benefits | \$ 2,529 | \$ - | \$ 2,529 |
| Fund Balances: | | | |
| Reserved for: | | | |
| Encumbrances | - | 126,083 | 126,083 |
| Unreserved: | | | |
| Undesignated (deficit) | 875,170 | (60,390) | 814,780 |
| Total Fund Balances | <u>875,170</u> | <u>65,693</u> | 940,863 |
| Total Liabilities and Fund Balances | <u>\$ 877,699</u> | <u>\$ 65,693</u> | |

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

| | |
|---|---------------------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 2,059,214 |
| Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds. | |
| Property tax revenue | 26,238 |
| Compensated absences payable are not financial resources, and therefore, not reported in the funds. | <u>(11,455)</u> |
| Net assets of governmental funds | <u>\$ 3,014,860</u> |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone D-1 - Arrowhead Dam
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

| | SPECIAL REVENUE FUND | OTHER GOVERNMENTAL FUND | Total Governmental Funds |
|-----------------------------|----------------------------|-------------------------------|--------------------------------|
| | General (SLA) | Infrastructure (CHK) | |
| REVENUES | | | |
| Property taxes | \$ 309,252 | \$ - | \$ 309,252 |
| Other taxes | 12,250 | - | 12,250 |
| State assistance | 6,981 | - | 6,981 |
| Investment earnings | 21,387 | 1,454 | 22,841 |
| Other | 13 | - | 13 |
| | <hr/> | <hr/> | <hr/> |
| Total Revenues | 349,883 | 1,454 | 351,337 |
| | <hr/> | <hr/> | <hr/> |
| EXPENDITURES | | | |
| Salaries and benefits | 89,595 | - | 89,595 |
| Services and supplies | 87,817 | - | 87,817 |
| Capital outlay: | | | |
| Structures and improvements | - | 1,749 | 1,749 |
| Improvements to land | - | 5,191 | 5,191 |
| | <hr/> | <hr/> | <hr/> |
| Total Expenditures | 177,412 | 6,940 | 184,352 |
| | <hr/> | <hr/> | <hr/> |
| Net Change in Fund Balances | 172,471 | (5,486) | 166,985 |
| | <hr/> | <hr/> | <hr/> |
| Fund Balances - beginning | 702,699 | 71,179 | 773,878 |
| | <hr/> | <hr/> | <hr/> |
| Fund Balances - ending | \$ 875,170 | \$ 65,693 | \$ 940,863 |
| | <hr/> | <hr/> | <hr/> |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone D-1 - Arrowhead Dam
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2003

| | | |
|--|----|---------|
| Net Change in Fund Balances - Total Governmental Funds | \$ | 166,985 |
|--|----|---------|

Amounts reported for governmental activities in the statement of activities are different because:

| | | |
|--|--|----------|
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period. | | (65,719) |
|--|--|----------|

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

| | | |
|-------------------------------------|--|----------|
| Property tax revenue - current year | | 26,238 |
| Property tax revenue - prior year | | (25,632) |

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

| | | |
|--|--|---------|
| Increase in compensated absences payable | | (1,711) |
|--|--|---------|

| | | |
|---|----|---------|
| Change in net assets of governmental activities | \$ | 100,161 |
|---|----|---------|

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone D-1 - Arrowhead Dam
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 70 - Zone D-1 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) to maintain a dam located on the east side of Lake Arrowhead known as Papoose Lake.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 - Zone D-1 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone D-1 - Arrowhead Dam
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone D-1 - Arrowhead Dam
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone D-1 - Arrowhead Dam
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------------|--------------|
| Infrastructure | 40 - 60 |
| Structures and improvements | 5 - 40 |
| Equipment and vehicles | 4 - 15 |

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The CSA is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2003 was as follows:

| <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|------------------------------|------------------|------------------|---------------------------|
| \$ 9,744 | \$ 4,476 | \$ 2,765 | \$ 11,455 |

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone D-1 - Arrowhead Dam
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$(65,719) difference are as follows:

| | |
|---|--------------------|
| Capital outlay | \$ 1,749 |
| Depreciation expense | <u>(67,468)</u> |
| Net adjustment to decrease <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | <u>\$ (65,719)</u> |

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone D-1 - Arrowhead Dam
Notes to Financial Statements
June 30, 2003

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|----------------------|--------------------|-------------|---------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,744,063 | \$ - | \$ - | \$ 1,744,063 |
| Construction in Progress | 140,270 | 1,749 | - | 142,019 |
| Total capital assets, not being Depreciated | 1,884,333 | 1,749 | - | 1,886,082 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 8,426,190 | - | - | 8,426,190 |
| Vehicles | 443,546 | - | - | 443,546 |
| Equipment | 70,178 | - | - | 70,178 |
| Total capital assets, being depreciated | 8,939,914 | - | - | 8,939,914 |
| Less accumulated depreciation for: | | | | |
| Land improvements | (8,344,968) | (2,871) | - | (8,347,839) |
| Vehicles | (326,727) | (57,960) | - | (384,687) |
| Equipment | (27,619) | (6,637) | - | (34,256) |
| Total accumulated depreciation | (8,699,314) | (67,468) | - | (8,766,782) |
| Total capital assets, being depreciated, net | 240,600 | (67,468) | - | 173,132 |
| Governmental activities capital assets, net | <u>\$ 2,124,933</u> | <u>\$ (65,719)</u> | <u>\$ -</u> | <u>\$ 2,059,214</u> |

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone D-1 - Arrowhead Dam
Notes to Financial Statements
June 30, 2003**

NOTE 4: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. The CSA paid \$5,133 to the plan as the employer's portion. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone D-1 - Arrowhead Dam
Notes to Financial Statements
June 30, 2003

NOTE 4: RETIREMENT PLAN (continued)

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

| <u>Year Ended June 30,</u> | <u>Annual Pension Cost (in thousands)</u> | <u>Percentage Contributed</u> |
|--------------------------------|---|-----------------------------------|
| 2001 | 58,572 | 100% |
| 2002 | 69,245 | 100% |
| 2003 | 68,361 | 100% |

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

NOTE 5: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 6: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). Insurance premiums totaled \$6,243 for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone D-1 - Arrowhead Dam
Notes to Financial Statements
June 30, 2003

NOTE 6: RISK MANAGEMENT (continued)

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

| Fiscal Year | Beginning of Fiscal Year Liability (in thousands) | Current Year Claims and Changes in Estimates (in thousands) | Claims Payments (in thousands) | End of Fiscal Year Liability (in thousands) |
|--------------------|--|--|---|--|
| 2002 - 2003 | \$ 95,288 | \$ 23,647 | \$ (32,171) | \$ 86,764 |
| 2001 - 2002 | \$ 61,172 | \$ 61,832 | \$ (27,716) | \$ 95,288 |

NOTE 7: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 70 - Zone D-1 - Arrowhead Dam
Budgetary Comparison Schedule - Special Revenue Fund (General)
For the Year Ended June 30, 2003

| | Special Revenue Fund | | | |
|---|----------------------|-----------------|------------|---|
| | General (SLA) | | | |
| | Original Budget | Final Budget | Actual | Variance with Final Budget Favorable (Unfavorable) |
| REVENUES | | | | |
| Property taxes | \$ 306,268 | \$ 306,268 | \$ 309,252 | \$ 2,984 |
| Other taxes | - | - | 12,250 | 12,250 |
| State assistance | - | - | 6,981 | 6,981 |
| Investment earnings | 15,000 | 15,000 | 21,387 | 6,387 |
| Other | - | - | 13 | 13 |
| Total Revenues | 321,268 | 321,268 | 349,883 | 28,615 |
| EXPENDITURES | | | | |
| Salaries and benefits | 94,366 | 94,366 | 89,595 | 4,771 |
| Services and supplies | 177,612 | 177,612 | 87,817 | 89,795 |
| Reserves and contingencies | 261,151 | 261,151 | - | 261,151 |
| Total Expenditures | 533,129 | 533,129 | 177,412 | 355,717 |
| Excess of Revenues Over (Under) Expenditures | (211,861) | (211,861) | 172,471 | 384,332 |
| OTHER FINANCING RESOURCES (USES) | | | | |
| Transfers out | (490,838) | (490,838) | - | 490,838 |
| Total Other Financing Sources (Uses) | (490,838) | (490,838) | - | 490,838 |
| Net Change in Fund Balances | \$ (702,699) | \$ (702,699) | 172,471 | \$ 875,170 |
| Fund Balances - beginning | | | 702,699 | |
| Fund Balances - ending | | | \$ 875,170 | |

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
ZONE F - MORONGO VALLEY**

REPORT ON AUDIT

JUNE 30, 2003

County of San Bernardino Special Districts
County Service Area No. 70
Zone F - Morongo Valley
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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 70 - Zone F - Morongo Valley

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 - Zone F - Morongo Valley (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the County of San Bernardino Special District County Service Area No. 70 - Zone F - Morongo Valley, as of June 30, 2003, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The County of San Bernardino Special District County Service Area No. 70 - Zone F - Morongo Valley has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

MEMBERS

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County of San Bernardino Special Districts
County Service Area No. 70 - Zone F - Morongo Valley
Statement of Net Assets
June 30, 2003

ASSETS

Current Assets:

| | |
|---------------------------|---------------|
| Cash and cash equivalents | \$ 44,534 |
| Accounts receivable, net | 12,554 |
| Interest receivable | 339 |
| Taxes receivable | 672 |
| Total Current Assets | <u>58,099</u> |

Noncurrent Assets:

Capital Assets:

| | |
|-----------------------------|----------------|
| Land | 4,311 |
| Land improvements | 322,778 |
| Structures and improvements | 151,790 |
| Construction in progress | 1,364 |
| Accumulated depreciation | (97,855) |
| Total Noncurrent Assets | <u>382,388</u> |

| | |
|--------------|----------------|
| Total Assets | <u>440,487</u> |
|--------------|----------------|

LIABILITIES

Current Liabilities:

| | |
|---------------------------|--------------|
| Accrued interest payable | 185 |
| Notes payable | 2,572 |
| Total Current Liabilities | <u>2,757</u> |

Noncurrent Liabilities:

| | |
|------------------------------|---------------|
| Notes payable | 758 |
| Loan payable | 50,582 |
| Total Noncurrent Liabilities | <u>51,340</u> |

| | |
|-------------------|---------------|
| Total Liabilities | <u>54,097</u> |
|-------------------|---------------|

NET ASSETS

| | |
|---|-------------------|
| Invested in capital assets, net of related debt | 378,077 |
| Unrestricted | 8,313 |
| Total Net Assets | <u>\$ 386,390</u> |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone F - Morongo Valley
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2003

OPERATING REVENUES

| | |
|----------------------------|---------------|
| Water sales | \$ 63,506 |
| Meter installation charges | 360 |
| Total Operating Revenues | <u>63,866</u> |

OPERATING EXPENSES

| | |
|--------------------------|---------------|
| Professional services | 7,014 |
| Salaries and benefits | 30,794 |
| Services and supplies | 19,179 |
| Utilities | 11,419 |
| Depreciation | 10,546 |
| Total Operating Expenses | <u>78,952</u> |

| | |
|------------------|-----------------|
| Operating (Loss) | <u>(15,086)</u> |
|------------------|-----------------|

NONOPERATING REVENUES (EXPENSES)

| | |
|-----------------------------|---------------|
| Property taxes | 7,458 |
| Other taxes | 278 |
| Special assessments | 2,262 |
| Investment earnings | 1,697 |
| Interest expense | (1,849) |
| State assistance | 155 |
| Penalties | 2,641 |
| Other | 816 |
| Total Nonoperating Revenues | <u>13,458</u> |

| | |
|----------------------|---------|
| Change in Net Assets | (1,628) |
|----------------------|---------|

| | |
|------------------------|----------------|
| Net Assets - beginning | <u>388,018</u> |
|------------------------|----------------|

| | |
|---------------------|-------------------|
| Net Assets - ending | <u>\$ 386,390</u> |
|---------------------|-------------------|

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone F - Morongo Valley
Statement of Cash Flows
For the Year Ended June 30, 2003

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|----------------|
| Receipts from customers | \$ 68,035 |
| Payments to suppliers | (40,127) |
| Payments to employees | (30,794) |
| Net Cash (Used For) Operating Activities | <u>(2,886)</u> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|---------------|
| Property taxes | 7,255 |
| Special assessments | 2,262 |
| Penalties | 2,641 |
| Other nonoperating revenues | 1,249 |
| Net Cash Provided By Noncapital Financing Activities | <u>13,407</u> |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|--|-----------------|
| Principal paid on debt obligations | (16,407) |
| Interest paid on debt obligations | (1,794) |
| Net Cash (Used For) Capital and Related Financing Activities | <u>(18,201)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|--------------|
| Investment earnings | 2,015 |
| Net Cash Provided By Investing Activities | <u>2,015</u> |

Net decrease in cash and cash equivalents (5,665)

Cash and Cash Equivalents - beginning of the year 50,199

Cash and Cash Equivalents - end of the year \$ 44,534

Reconciliation of operating (loss) to net cash (used for)
operating activities:

| | |
|---|-------------|
| Operating (loss) | \$ (15,086) |
| Adjustments to reconcile operating (loss) to net cash (used for) operating activities: | |
| Depreciation expense | 10,546 |
| Change in assets and liabilities: | |
| Decrease in receivable | 4,169 |
| Decrease in accounts payable | (2,515) |

Net Cash (Used For) Operating Activities \$ (2,886)

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone F - Morongo Valley
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 70, Zone F was established by an act of the Board of Supervisors of the County of San Bernardino (the County) to provide water service to 88 properties, maintenance to 2 wells, 1 booster station and a reservoir that stores 65,000 gallons of water for the community of Morongo Valley.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 Zone F of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Measurement focus, basis of accounting, and financial statement presentation

The CSA's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone F - Morongo Valley
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All accounts receivable are shown net of an allowance for uncollectibles when applicable. The accounts receivable balance at June 30, 2003 is net of an allowance for doubtful accounts of \$1,092.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital assets

Capital assets, which include property, plant, and equipment are reported in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone F - Morongo Valley
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------------|--------------|
| Structures and improvements | 5 - 40 |
| Equipment and vehicles | 4 - 15 |

Long-term obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

Although the District prepares and adopts an annual budget, budgetary information is not presented because the District is not legally required to adopt a budget.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone F - Morongo Valley
Notes to Financial Statements
June 30, 2003

NOTE 3: ACCOUNTS RECEIVABLE

At June 30, 2003, the receivables were composed of the following:

| | <u>Ambulance</u> |
|------------------------------------|------------------|
| Accounts Receivable | \$ 13,646 |
| Less: allowance for uncollectibles | <u>(1,092)</u> |
| Net Total Accounts Receivable | <u>\$ 12,554</u> |

NOTE 4: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|--|------------------------------|--------------------|------------------|---------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 4,311 | \$ - | \$ - | \$ 4,311 |
| Construction in progress | 1,364 | - | - | 1,364 |
| Total capital assets, not being depreciated | <u>5,675</u> | <u>-</u> | <u>-</u> | <u>5,675</u> |
| Capital assets, being depreciated: | | | | |
| Land improvements | 322,778 | - | - | 322,778 |
| Structures and improvements | 151,790 | - | - | 151,790 |
| Total capital assets, being depreciated | <u>474,568</u> | <u>-</u> | <u>-</u> | <u>474,568</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | (80,141) | (7,173) | - | (87,314) |
| Structures and improvements | (7,168) | (3,373) | - | (10,541) |
| Total accumulated depreciation | <u>(87,309)</u> | <u>(10,546)</u> | <u>-</u> | <u>(97,855)</u> |
| Total capital assets, being depreciated, net | <u>387,259</u> | <u>(10,546)</u> | <u>-</u> | <u>376,713</u> |
| Total capital assets, net | <u>\$ 392,934</u> | <u>\$ (10,546)</u> | <u>\$ -</u> | <u>\$ 382,388</u> |

County of San Bernardino Special Districts
County Service Area No. 70 - Zone F - Morongo Valley
Notes to Financial Statements
June 30, 2003

NOTE 5: NOTES PAYABLE

Two notes originally issued at \$40,000 and \$10,000 were assumed by the CSA in 1977 from the Hi-Desert County Water District for financing the construction of a utility plant. The notes were issued at 4.5% interest per annum with principal and interest installments due annually. Details of the notes are shown below:

| <u>Date of Note</u> | <u>Interest Rate</u> | <u>Term</u> | <u>Annual Payment</u> |
|---------------------|----------------------|-------------|------------------------|
| 3/13/64 | 4.5% | 40 years | \$ 2,174 |
| 5/06/64 | 4.5% | 40 years | 549 |
| Totals | | | <u><u>\$ 2,723</u></u> |

Annual debt service requirements to maturity for notes are as follows:

| <u>Year Ending June 30,</u> | <u>Zone F - Morongo Valley</u> |
|-----------------------------|--|
| 2003 | \$ 2,723 |
| 2004 | 792 |
| Total payments | 3,515 |
| Less: Interest | (185) |
| Total Principal | <u><u>\$ 3,330</u></u> |
| Current portion | \$ 2,572 |
| Noncurrent portion | 758 |
| | <u><u>\$ 3,330</u></u> |

Change in long-term liabilities

Long-term liability activity for the year ended June 30, 2003, was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|-----------------------------|------------------------------|--------------------|---------------------------|---------------------------|--------------------------------|
| Notes payable: | | | | | |
| #91-04 | \$ 5,776 | \$ - | \$ (2,891) | \$ 2,885 | \$ 2,227 |
| #91-05 | 892 | - | (447) | 445 | 345 |
| Total notes payable | 6,668 | - | (3,338) | 3,330 | 2,572 |
| Loan Payable | 63,651 | - | (13,069) | 50,582 | - |
| Total Long-term Liabilities | <u><u>\$ 70,319</u></u> | <u><u>\$ -</u></u> | <u><u>\$ (16,407)</u></u> | <u><u>\$ 53,912</u></u> | <u><u>\$ 2,572</u></u> |

County of San Bernardino Special Districts
County Service Area No. 70 - Zone F - Morongo Valley
Notes to Financial Statements
June 30, 2003

NOTE 6: LOAN PAYABLE

The CSA received loan proceeds from the County's Revolving Fund established under Government Code Section 25210.9c. All loans to date have five-year terms as established by the Board of Supervisors. The loan balance reported on the Statement of Net Assets at June 30, 2003 is \$50,582.

Future debt service payments for the County's revolving loan is not disclosed because there are no fixed payment dates.

NOTE 7: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone F - Morongo Valley
Notes to Financial Statements
June 30, 2003

NOTE 7: RETIREMENT PLAN (continued)

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

| <u>Year Ended June 30,</u> | <u>Annual Pension Cost (in thousands)</u> | <u>Percentage Contributed</u> |
|--------------------------------|---|-----------------------------------|
| 2001 | 58,572 | 100% |
| 2002 | 69,245 | 100% |
| 2003 | 68,361 | 100% |

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

NOTE 8: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 9: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone F - Morongo Valley
Notes to Financial Statements
June 30, 2003

NOTE 9: RISK MANAGEMENT (continued)

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

| Fiscal Year | Beginning of Fiscal Year Liability (in thousands) | Current Year Claims and Changes in Estimates (in thousands) | Claims Payments (in thousands) | End of Fiscal Year Liability (in thousands) |
|--------------------|--|--|---|--|
| 2002 - 2003 | \$ 95,288 | \$ 23,647 | \$ (32,171) | \$ 86,764 |
| 2001 - 2002 | \$ 61,172 | \$ 61,832 | \$ (27,716) | \$ 95,288 |

NOTE 10: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 11: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
ZONE FP1 - WINDY ACRES**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 70
Zone FP1 - Windy Acres
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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 70 - Zone FP1 - Windy Acres

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 - Zone FP1 - Windy Acres (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 70 - Zone FP1 - Windy Acres, as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

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The County of San Bernardino Special District County Service Area No. 70 - Zone FP1 - Windy Acres has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

County of San Bernardino Special Districts
County Service Area No. 70 - Zone FP1 - Windy Acres
Statement of Net Assets
June 30, 2003

ASSETS

| | |
|---------------------------|------------|
| Cash and cash equivalents | \$ 18,676 |
| Interest receivable | 156 |
| Taxes receivable | <u>965</u> |

| | |
|--------------|---------------|
| Total Assets | <u>19,797</u> |
|--------------|---------------|

LIABILITIES

-

NET ASSETS

| | |
|--------------|---------------|
| Unrestricted | <u>19,797</u> |
|--------------|---------------|

| | |
|------------------|-------------------------|
| Total Net Assets | <u><u>\$ 19,797</u></u> |
|------------------|-------------------------|

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone FP1 - Windy Acres
Statement of Activities
For the Year Ended June 30, 2003

EXPENSES

| | |
|------------------------|---------------|
| Salaries and benefits | \$ 31 |
| Services and supplies | 641 |
| Intergovernmental | <u>20,000</u> |
| Total Program Expenses | <u>20,672</u> |

PROGRAM REVENUES

| | |
|----------------------|-----------------|
| Charges for services | <u>6,207</u> |
| Net Program Expense | <u>(14,465)</u> |

GENERAL REVENUES

| | |
|------------------------|--------------|
| Property taxes | 1,049 |
| Investment earnings | <u>935</u> |
| Total General Revenues | <u>1,984</u> |

| | |
|----------------------|----------|
| Change in Net Assets | (12,481) |
|----------------------|----------|

| | |
|-------------------------------|---------------|
| Net Assets - beginning | <u>32,278</u> |
|-------------------------------|---------------|

| | |
|----------------------------|-------------------------|
| Net Assets - ending | <u><u>\$ 19,797</u></u> |
|----------------------------|-------------------------|

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone FP1 - Windy Acres
Balance Sheet
Governmental Fund
June 30, 2003

| | SPECIAL REVENUE FUND |
|--|----------------------------|
| | General (SLJ) |
| ASSETS | |
| Cash and cash equivalents | \$ 18,676 |
| Interest receivable | 156 |
| Taxes receivable | 965 |
| | <hr/> |
| Total Assets | \$ 19,797 |
| | <hr/> |
| LIABILITIES AND FUND BALANCES | |
| Liabilities | \$ - |
| | <hr/> |
| Fund Balances: | |
| Unreserved: | |
| Undesignated | 19,797 |
| | <hr/> |
| Total Fund Balances | 19,797 |
| | <hr/> |
| Total Liabilities and Fund Balances | \$ 19,797 |
| | <hr/> |
| Total fund balances - governmental fund | \$ 19,797 |
| Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because: | |
| None | - |
| | <hr/> |
| Net assets of governmental fund | \$ 19,797 |
| | <hr/> |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone FP1 - Windy Acres
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund
For the Year Ended June 30, 2003

| | SPECIAL REVENUE FUND |
|---------------------------------------|----------------------------|
| | General (SLJ) |
| REVENUES | |
| Property taxes | \$ 1,049 |
| Special assessments | 6,207 |
| Investment earnings | 935 |
| Total Revenues | <u>8,191</u> |
| EXPENDITURES | |
| Salaries and benefits | 31 |
| Services and supplies | 641 |
| Total Expenditures | <u>672</u> |
| Excess of Revenues Over Expenditures | <u>7,519</u> |
| OTHER FINANCING SOURCES (USES) | |
| Transfer out | <u>(20,000)</u> |
| Total Other Financing Sources (Uses) | <u>(20,000)</u> |
| Net Change in Fund Balances | (12,481) |
| Fund Balances - beginning | <u>32,278</u> |
| Fund Balances - ending | <u><u>\$ 19,797</u></u> |

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone FP1 - Windy Acres
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Fund to the
Statement of Activities
For the Year Ended June 30, 2003**

| | |
|---|--------------------|
| Net Change in Fund Balances - Total Governmental Fund | \$ (12,481) |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| None | <u>-</u> |
| Change in net assets of governmental activities | <u>\$ (12,481)</u> |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone FP1 - Windy Acres
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 70 - Zone FP1 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) in January 1985 to provide fire protection to the community of Windy Acres under the administrative direction of the County Fire Department.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 - Zone FP1 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone FP1 - Windy Acres
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone FP1 - Windy Acres
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone FP1 - Windy Acres
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------------|--------------|
| Infrastructure | 40 - 60 |
| Structures and improvements | 5 - 40 |
| Equipment and vehicles | 4 - 15 |

Currently, the CSA does not have any capital assets.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone FP1 - Windy Acres
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone FP1 - Windy Acres
Notes to Financial Statements
June 30, 2003**

NOTE 3: RETIREMENT PLAN (continued)

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

| <u>Year Ended June 30,</u> | <u>Annual Pension Cost (in thousands)</u> | <u>Percentage Contributed</u> |
|--------------------------------|---|-----------------------------------|
| 2001 | 58,572 | 100% |
| 2002 | 69,245 | 100% |
| 2003 | 68,361 | 100% |

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

NOTE 4: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone FP1 - Windy Acres
Notes to Financial Statements
June 30, 2003

NOTE 5: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone FP1 - Windy Acres
Notes to Financial Statements
June 30, 2003

NOTE 5: RISK MANAGEMENT (continued)

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

| <u>Fiscal Year</u> | <u>Beginning of Fiscal Year Liability (in thousands)</u> | <u>Current Year Claims and Changes in Estimates (in thousands)</u> | <u>Claims Payments (in thousands)</u> | <u>End of Fiscal Year Liability (in thousands)</u> |
|--------------------|--|--|---|--|
| 2002 - 2003 | \$ 95,288 | \$ 23,647 | \$ (32,171) | \$ 86,764 |
| 2001 - 2002 | \$ 61,172 | \$ 61,832 | \$ (27,716) | \$ 95,288 |

NOTE 6: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 7: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 70 - Zone FP1 - Windy Acres
Budgetary Comparison Schedule - Special Revenue Fund (General)
For the Year Ended June 30, 2003

| | Special Revenue Fund | | | |
|---|----------------------|-----------------|-----------|---|
| | General (SLJ) | | | |
| | Original Budget | Final Budget | Actual | Variance with Final Budget Favorable (Unfavorable) |
| REVENUES | | | | |
| Property taxes | \$ - | \$ - | \$ 1,049 | \$ 1,049 |
| Special assessments | 6,667 | 6,667 | 6,207 | (460) |
| Investment earnings | 2,000 | 2,000 | 935 | (1,065) |
| | | | | |
| Total Revenues | 8,667 | 8,667 | 8,191 | (476) |
| | | | | |
| EXPENDITURES | | | | |
| Salaries and benefits | 31 | 31 | 31 | - |
| Services and supplies | 4,767 | 4,767 | 641 | 4,126 |
| Reserves and contingencies | 16,147 | 16,147 | - | 16,147 |
| | | | | |
| Total Expenditures | 20,945 | 20,945 | 672 | 20,273 |
| | | | | |
| Excess of Revenues Over (Under) Expenditures | (12,278) | (12,278) | 7,519 | 19,797 |
| | | | | |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfer out | (20,000) | (20,000) | (20,000) | - |
| | | | | |
| Total Other Financing Sources (Uses) | (20,000) | (20,000) | (20,000) | - |
| | | | | |
| Net Change in Fund Balances | \$ (32,278) | \$ (32,278) | (12,481) | \$ 19,797 |
| | | | | |
| Fund Balances - beginning | | | 32,278 | |
| | | | | |
| Fund Balances - ending | | | \$ 19,797 | |

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
ZONE G, L AND L-1**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 70
Zone G, L and L-1
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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 70 - Zone G, L and L-1

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the County of San Bernardino Special District County Service Area No. 70 - Zone G, L and L-1 (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the County of San Bernardino Special District County Service Area No. 70 - Zone G, L and L-1, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 25 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

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CALIFORNIA SOCIETY OF
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The County of San Bernardino Special District County Service Area No. 70 - Zone G, L and L-1 has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

County of San Bernardino Special Districts
County Service Area No. 70 - Zone G, L and L-1
Statement of Net Assets
June 30, 2003

| | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|---------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 3,308 | \$ 3,987,838 | \$ 3,991,146 |
| Accounts receivable, net | - | 389,398 | 389,398 |
| Loan receivable | - | 320,827 | 320,827 |
| Interest receivable | 23 | 19,483 | 19,506 |
| Taxes receivable | 992 | 42,392 | 43,384 |
| Capital assets, net of depreciation | - | 18,573,815 | 18,573,815 |
| Total Assets | 4,323 | 23,333,753 | 23,338,076 |
| LIABILITIES | | | |
| Accounts payable | - | 759,444 | 759,444 |
| Interest payable | - | 39,361 | 39,361 |
| Due to other governments | 891 | 37,317 | 38,208 |
| Long-term liabilities: | | | |
| Due within one year | - | 220,000 | 220,00 |
| Due in more than one year | - | 2,852,215 | 2,852,215 |
| Total Liabilities | 891 | 3,908,337 | 3,909,228 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | - | 15,501,600 | 15,501,600 |
| Unrestricted | 3,432 | 3,923,816 | 3,927,248 |
| Total Net Assets | \$ 3,432 | \$ 19,425,416 | \$19,428,848 |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone G, L and L-1
Statement of Activities
For the Year Ended June 30, 2003

| | Governmental Activities | Business-type Activities | Total |
|----------------------------|----------------------------|-----------------------------|---------------------|
| EXPENSES | | | |
| Professional services | \$ - | \$ 80,379 | \$ 80,379 |
| Salaries and benefits | 2,225 | 1,272,304 | 1,274,529 |
| Services and supplies | 3,809 | 658,448 | 662,257 |
| Rents and leases | - | 2,104 | 2,104 |
| Utilities | - | 829,031 | 829,031 |
| Depreciation | - | 589,699 | 589,699 |
| Interest on long-term debt | - | 115,755 | 115,755 |
| Other operating expenses | - | 146,885 | 146,885 |
| Total Expenses | <u>6,034</u> | <u>3,694,605</u> | <u>3,700,639</u> |
| PROGRAM REVENUES | | | |
| Charges for services | <u>-</u> | <u>3,460,025</u> | <u>3,460,025</u> |
| Net Program Expense | <u>(6,034)</u> | <u>(234,580)</u> | <u>(240,614)</u> |
| GENERAL REVENUES | | | |
| Investment earnings | 44 | 89,233 | 89,277 |
| Property taxes | 6,940 | 725,650 | 732,590 |
| Penalties | - | 84,003 | 84,003 |
| Other | 435 | 44,432 | 44,867 |
| Total General Revenues | <u>7,419</u> | <u>943,318</u> | <u>950,737</u> |
| Change in Net Assets | 1,385 | 708,738 | 710,123 |
| Net Assets - beginning | <u>2,047</u> | <u>18,716,678</u> | <u>18,718,725</u> |
| Net Assets - ending | <u>\$ 3,432</u> | <u>\$ 19,425,416</u> | <u>\$19,428,848</u> |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone G, L and L-1
Balance Sheet
Governmental Fund
June 30, 2003

| | SPECIAL REVENUE FUND |
|---|-------------------------------------|
| | County-Wide Improvement (SLG) |
| ASSETS | |
| Cash and cash equivalents | \$ 3,308 |
| Interest receivable | 23 |
| Taxes receivable | 403 |
| | <hr/> |
| Total Assets | \$ 3,734 |
| | <hr/> |
| LIABILITIES AND FUND BALANCES | |
| Liabilities: | |
| Due to other governments | \$ 891 |
| | <hr/> |
| Total Liabilities | 891 |
| | <hr/> |
| Fund Balances: | |
| Unreserved - undesignated | 2,843 |
| | <hr/> |
| Total Fund Balances | 2,843 |
| | <hr/> |
| Total Liabilities and Fund Balances | \$ 3,734 |
| | <hr/> |
| Total fund balance - governmental fund | \$ 2,843 |
| Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because: | |
| Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental fund. | |
| Property tax revenue | 589 |
| | <hr/> |
| Net assets of governmental fund | \$ 3,432 |
| | <hr/> |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone G, L and L-1
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund
For the Year Ended June 30, 2003

| | SPECIAL REVENUE FUND <hr/> County-Wide Improvement (SLG) <hr/> |
|-----------------------------|---|
| REVENUES | |
| Property taxes | \$ 6,923 |
| Other taxes | 279 |
| State assistance | 156 |
| Investment earnings | 44 |
| | <hr/> |
| Total Revenues | 7,402 |
| | <hr/> |
| EXPENDITURES | |
| Salaries and benefits | 2,225 |
| Services and supplies | 3,809 |
| | <hr/> |
| Total Expenditures | 6,034 |
| | <hr/> |
| Net Change in Fund Balances | 1,368 |
| | <hr/> |
| Fund Balances - beginning | 1,475 |
| | <hr/> |
| Fund Balances - ending | \$ 2,843 |
| | <hr/> |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone G, L and L-1
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Fund to the
Statement of Activities
For the Year Ended June 30, 2003

| | | |
|---|----|-------|
| Net Change in Fund Balances - Total Governmental Fund | \$ | 1,368 |
|---|----|-------|

Amounts reported for governmental activities in the statement of activities
are different because:

Some revenues will not be collected for several months after year-end,
they are not considered "available" revenue in the governmental fund.

Property tax revenue - current year

589

Property tax revenue - prior year

(572)

| | | |
|---|----|--------------|
| Change in net assets of governmental activities | \$ | <u>1,385</u> |
|---|----|--------------|

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone G, L and L-1
Statement of Net Assets
Proprietary Fund
June 30, 2003

| | <u>Enterprise Fund</u> <u>Water Services</u> |
|---|---|
| ASSETS | |
| Current Assets: | |
| Cash and cash equivalents | \$ 3,987,838 |
| Accounts receivable, net | 389,398 |
| Loan receivable | 320,827 |
| Interest receivable | 19,483 |
| Taxes receivable | 42,392 |
| Total Current Assets | <u>4,759,938</u> |
| Noncurrent Assets: | |
| Capital assets: | |
| Land | 436,593 |
| Improvement to land | 25,657,195 |
| Structures and improvements | 456,601 |
| Vehicles | 175,785 |
| Construction in progress | 1,937,153 |
| Accumulated depreciation | <u>(10,089,512)</u> |
| Total Noncurrent Assets | <u>18,573,815</u> |
| Total Assets | <u>23,333,753</u> |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts payable | 759,444 |
| Interest payable | 39,361 |
| Matured bonds payable | 5,000 |
| Bonds payable | 215,000 |
| Due to other governments | 37,317 |
| Total Current Liabilities | <u>1,056,122</u> |
| Noncurrent Liabilities: | |
| Loan payable | 1,554,798 |
| Bonds payable | 1,305,000 |
| Unamortized discount on bonds | <u>(7,583)</u> |
| Total Noncurrent Liabilities | <u>2,852,215</u> |
| Total Liabilities | <u>3,908,337</u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 15,501,600 |
| Unrestricted | <u>3,923,816</u> |
| Total Net Assets | <u>\$ 19,425,416</u> |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone G, L and L-1
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2003

| | <u>Enterprise Fund</u> <u>Water Services</u> |
|---|---|
| OPERATING REVENUES | |
| Water sales | \$ 2,429,297 |
| Connection fees | 549,532 |
| Permits and inspection | 8,779 |
| Other services | 73,103 |
| Total Operating Revenues | <u>3,060,711</u> |
| OPERATING EXPENSES | |
| Professional services | 80,379 |
| Salaries and benefits | 1,272,304 |
| Services and supplies | 658,448 |
| Rents and leases | 2,104 |
| Utilities | 829,031 |
| Depreciation | 589,699 |
| Other operating expenses | 146,885 |
| Total Operating Expenses | <u>3,578,850</u> |
| Operating (Loss) | <u>(518,139)</u> |
| NONOPERATING REVENUES (EXPENSES) | |
| Investment earnings | 89,233 |
| Interest expense | (115,755) |
| Property taxes | 725,650 |
| Special assessments | 399,314 |
| State assistance | 8,767 |
| Penalties | 84,003 |
| Other | 35,665 |
| Total Nonoperating Revenues (Expenses) | <u>1,226,877</u> |
| Change in Net Assets | 708,738 |
| Net Assets - beginning | <u>18,716,678</u> |
| Net Assets - ending | <u>\$ 19,425,416</u> |

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone G, L and L-1
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2003**

| | <u>Enterprise Fund</u> <u>Water Services</u> |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from customers | \$ 3,094,258 |
| Payments to suppliers | (1,203,538) |
| Payments to employees | (1,272,304) |
| | <u>618,416</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Property taxes | 725,650 |
| Special assessments | 399,314 |
| State assistance | 8,767 |
| Penalties | 84,003 |
| Other | 35,665 |
| | <u>1,253,399</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Principal paid on bonds | (195,000) |
| Interest paid on bonds | (108,900) |
| Proceeds from long-term debt | 1,233,971 |
| Acquisition of capital assets | (1,798,951) |
| | <u>(868,880)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Investment earnings | 99,682 |
| | <u>99,682</u> |
| Net Cash Provided By Investing Activities | <u>99,682</u> |
| Net increase in cash and cash equivalents | 1,102,617 |
| Cash and Cash Equivalents - beginning of the year | <u>2,885,221</u> |
| Cash and Cash Equivalents - end of the year | <u>\$ 3,987,838</u> |

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone G, L and L-1
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2003**

| | <u>Enterprise Fund</u> <u>Water Services</u> |
|---|---|
| Reconciliation of operating (loss) to net cash provided by operating activities: | |
| Operating (loss) | \$ (518,139) |
| Adjustments to reconcile operating (loss) to net cash provided by operating activities: | |
| Depreciation expense | 589,699 |
| Change in assets and liabilities: | |
| Decrease in accounts receivable, net | 28,214 |
| Increase in taxes receivable | (4,776) |
| Decrease in due from other governments | 10,109 |
| Increase in accounts payable | 475,992 |
| Increase in due to other governments | 37,317 |
| | <u>618,416</u> |
| Net Cash Provided by Operating Activities | \$ 618,416 |

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone G, L and L-1
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003**

ASSETS

| | |
|----------------------|------------|
| Cash and investments | \$ 583,157 |
|----------------------|------------|

| | |
|--------------|-------------------|
| Total Assets | <u>\$ 583,157</u> |
|--------------|-------------------|

LIABILITIES

| | |
|--------------------------|------------|
| Due to other governments | \$ 583,157 |
|--------------------------|------------|

| | |
|-------------------|-------------------|
| Total Liabilities | <u>\$ 583,157</u> |
|-------------------|-------------------|

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone G, L and L-1
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 70 Zone G, L and L-1 were established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code. The CSA No. 70 Zone G, Oak Springs (enterprise fund) is situated three miles north of Wrightwood. It serves 130 properties and maintains 2 wells, 1 booster station and reservoir storage of 518,000 gallons. The CSA No. 70 Zone G, Wrightwood (governmental fund) consists of five miles of unimproved roads. The CSA No. 70 Improvement Zone L, Pinon Hills, provides water service to 5,019 properties located northeast of Wrightwood. It maintains 11 wells, 58 booster stations, 68 pumps and reservoir storage of 4.2 million gallons.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 Zone G, L and L-1 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone G, L and L-1
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "County-Wide Improvement" accounts the activities of the government's efforts to maintain and remove snow from five miles of unimproved roads.

The government reports the following major proprietary fund:

The *enterprise fund* labeled "Water Services" accounts for the activities of the government's water services.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone G, L and L-1
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone G, L and L-1
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------------|--------------|
| Infrastructure | 40 - 60 |
| Structures and improvements | 5 - 40 |
| Equipment and vehicles | 4 - 15 |

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone G, L and L-1
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding, if any, at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone G, L and L-1
Notes to Financial Statements
June 30, 2003

NOTE 3: ACCOUNTS RECEIVABLE

At June 30, 2003, the accounts receivable were composed of the following:

| | <u>Enterprise Fund Water Services</u> |
|-----------------------------------|---|
| Accounts Receivable | \$ 427,620 |
| Less: Allowance for Uncollectible | <u>(38,222)</u> |
| Total Accounts Receivable, net | <u><u>\$ 389,398</u></u> |

NOTE 4: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------------|---------------------------|-----------------------------|
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 436,593 | \$ - | \$ - | \$ 436,593 |
| Construction in Progress | 452,267 | 1,742,583 | (257,697) | 1,937,153 |
| Total capital assets, not being depreciated | <u>888,860</u> | <u>1,742,583</u> | <u>(257,697)</u> | <u>2,373,746</u> |
| Capital assets, being depreciated: | | | | |
| Land improvements | 25,435,613 | 221,582 | - | 25,657,195 |
| Structures and improvements | 364,118 | 92,483 | - | 456,601 |
| Vehicles | 175,785 | - | - | 175,785 |
| Total capital assets, being depreciated | <u>25,975,516</u> | <u>314,065</u> | <u>-</u> | <u>26,289,581</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | (9,219,886) | (581,607) | - | (9,801,493) |
| Structures and improvements | (104,142) | (8,092) | - | (112,234) |
| Vehicles | (175,785) | - | - | (175,785) |
| Total accumulated depreciation | <u>(9,499,813)</u> | <u>(589,699)</u> | <u>-</u> | <u>(10,089,512)</u> |
| Total capital assets, being depreciated, net | <u>16,475,703</u> | <u>(275,634)</u> | <u>-</u> | <u>16,200,069</u> |
| Business-type activities capital assets, net | <u><u>\$ 17,364,563</u></u> | <u><u>\$1,466,949</u></u> | <u><u>\$(257,697)</u></u> | <u><u>\$ 18,573,815</u></u> |

County of San Bernardino Special Districts
County Service Area No. 70 - Zone G, L and L-1
Notes to Financial Statements
June 30, 2003

NOTE 5: REFUNDING OF 1915 ACT BONDS

On June 30, 1994, the County's Assessment District 94-2 issued a Limited Obligation Refunding Bond (the "Assessment Bond") under the provisions of the Refunding Act of 1984 for 1915 Improvement Act Bonds for the purpose of refunding eleven prior series of assessment district bonds of the County. The prior series assessment bonds of Assessment District #81-1, #82-6, #84-2, #84-4 and #87-3 amounting to \$9,575,000 were refunded. The Assessment Bond is payable from reassessment payments, collected on assessed parcels within Assessment District 94-2, of which Assessment District #81-1, #82-6, #84-2, #84-4 and #87-3 are subareas. Exhibit "I" shows the cash and investments of the Agency funds including Assessment Districts #81-1, #82-4, #82-6, #84-2, #84-4 and #87-3 which represent reserve funds of the Assessment District County Service Area No. 70 Zone G, L and L-1 at June 30, 2003.

The County has no obligation to advance funds to pay debt service on the Assessment Bond in the event collections are insufficient. However, the County may, at its option and in its sole discretion, elect to advance available surplus funds of the County in the amount of any delinquent payments to pay debt service on the Assessment Bond.

NOTE 6: BONDS PAYABLE

General Obligation Bond - Matured

In 1974, the Board of Supervisors approved the issuance of general obligation bonds to finance construction of a water facility. Bonds were issued under the authority provided under the County Service Area Law of the California Government Code. The matured bonds payable amounts to \$5,000 at June 30, 2003.

General Obligation Bonds - Outstanding

County Service Area No. 70, Zone L, has three series of outstanding general obligation bonds issued to finance water distribution projects in the Pinon Hills area. A summary of bonds payable is as follows:

| | <u>Interest Rates (%)</u> | <u>Date of Issue</u> | <u>Date of Maturity</u> | <u>Amount of Original Issue</u> | <u>Outstanding as of 6-30-2003</u> |
|-------------------|-------------------------------|--------------------------|-----------------------------|-------------------------------------|--|
| Series A | 5.00 | 3-1-1978 | 3-1-2018 | \$ 1,708,000 | \$ 1,040,000 |
| Series B | 5.00 | 3-1-1978 | 3-1-2018 | 275,000 | 150,000 |
| Series C | 9.00 to 11.00 | 11-1-1984 | 3-1-2005 | 1,518,000 | 330,000 |
| | | | | <u>\$ 3,501,000</u> | <u>\$ 1,520,000</u> |
| Current Portion | | | | | \$ 215,000 |
| Long-Term Portion | | | | | 1,305,000 |
| | | | | | <u>\$ 1,520,000</u> |

County of San Bernardino Special Districts
County Service Area No. 70 - Zone G, L and L-1
Notes to Financial Statements
June 30, 2003

NOTE 6: BONDS PAYABLE (continued)

The following is a schedule of debt service requirements to maturity as of June 30, 2003 for the District's bonds payable:

| <u>Year Ending</u> | <u>Series A</u> | <u>Series B</u> | <u>Series C</u> | <u>Total</u> |
|--------------------|---------------------|-------------------|-------------------|---------------------|
| 2004 | \$ 102,000 | \$ 17,500 | \$ 186,250 | \$ 305,750 |
| 2005 | 99,500 | 17,000 | 190,750 | 307,250 |
| 2006 | 102,000 | 16,500 | - | 118,500 |
| 2007 | 99,250 | 16,000 | - | 115,250 |
| 2008 | 101,500 | 15,500 | - | 117,000 |
| 2009 - 2013 | 500,250 | 70,000 | - | 570,250 |
| 2014 - 2018 | 496,500 | 57,500 | - | 554,000 |
| Total Payments | 1,501,000 | 210,000 | 377,000 | 2,088,000 |
| Less: Interest | (461,000) | (60,000) | (47,000) | (568,000) |
| Total Principal | <u>\$ 1,040,000</u> | <u>\$ 150,000</u> | <u>\$ 330,000</u> | <u>\$ 1,520,000</u> |

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2003 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|------------------------|------------------------------|------------------|---------------------|---------------------------|--------------------------------|
| Bonds Payable: | | | | | |
| Series A | \$ 1,085,000 | \$ - | \$ (45,000) | \$ 1,040,000 | \$ 50,000 |
| Series B | 160,000 | - | (10,000) | 150,000 | 10,000 |
| Series C | 470,000 | - | (140,000) | 330,000 | 155,000 |
| Less deferred amounts: | | | | | |
| Discounts | (11,377) | - | 3,794 | (7,583) | - |
| Total Bond Payable | <u>\$ 1,703,623</u> | <u>\$ -</u> | <u>\$ (191,206)</u> | <u>\$ 1,512,417</u> | <u>\$ 215,000</u> |

NOTE 7: LOAN PAYABLE

The CSA 70 Zone L entered into an Enterprise Fund Installment Sale Agreement (the "Agreement") dated December 17, 2002 with the California Infrastructure and Economic Development Bank (CIEDB) to fund water system improvements known as the County Service Area 70 - Water Tank Project. The CIEDB will issue bonds in December 2003 (the "Bond Date"), and the Agreement will be pledged as security for the bonds. (See Subsequent Event - Note 13) Prior to the Bond Date, the CIEDB reimburses the CSA project costs incurred as a loan to the CSA at an interest rate of 3.24%. Project costs incurred as of June 30, 2003 was \$1,554,798, which is equal to the loan payable balance at June 30, 2003.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone G, L and L-1
Notes to Financial Statements
June 30, 2003

NOTE 7: LOAN PAYABLE (continued)

Since the loan proceeds, or the project costs, prior to the Bond Date are subject to change, the amortization schedule of the loan is not available until the Bond Date. Therefore, a schedule of the debt service requirements to maturity as of June 30, 2003 is not prepared.

NOTE 8: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone G, L and L-1
Notes to Financial Statements
June 30, 2003

NOTE 8: RETIREMENT PLAN (continued)

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

| <u>Year Ended June 30,</u> | <u>Annual Pension Cost (in thousands)</u> | <u>Percentage Contributed</u> |
|--------------------------------|---|-----------------------------------|
| 2001 | 58,572 | 100% |
| 2002 | 69,245 | 100% |
| 2003 | 68,361 | 100% |

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

NOTE 9: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 10: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone G, L and L-1
Notes to Financial Statements
June 30, 2003**

NOTE 10: RISK MANAGEMENT (continued)

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

| <u>Fiscal Year</u> | <u>Beginning of Fiscal Year Liability (in thousands)</u> | <u>Current Year Claims and Changes in Estimates (in thousands)</u> | <u>Claims Payments (in thousands)</u> | <u>End of Fiscal Year Liability (in thousands)</u> |
|--------------------|--|--|---|--|
| 2002 - 2003 | \$ 95,288 | \$ 23,647 | \$ (32,171) | \$ 86,764 |
| 2001 - 2002 | \$ 61,172 | \$ 61,832 | \$ (27,716) | \$ 95,288 |

NOTE 11: PENDING LITIGATION

County Service Area No. 70-Zone G is involved in litigation concerning the allocation of water rights in the Mojave River system. While there is no direct financial liability to Zone G at stake, an adverse decision may divert some water allocations to Zone G and increase the cost of future water purchases. County Council believes the possibility of an adverse decision is reasonably possible.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone G, L and L-1
Notes to Financial Statements
June 30, 2003

NOTE 12: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 13: SUBSEQUENT EVENT

The CSA 70-Zone L entered into an Enterprise Fund Installment Sale Agreement (the "Agreement") dated December 17, 2002 with the California Infrastructure and Economic Development Bank (CIEDB) to fund water system improvements known as the County Service Area 70 - Water Tank Project. According to the Agreement, the CIEDB will issue Infrastructure State Revolving Fund Program Revenue Bonds (the "Bonds") in December 2003, in the amount of \$5,001,000, and will then sell the improvements to the CSA. The CSA has agreed to make installment payments to the CIEDB secured by a pledge of a first lien on all of the pledged net system revenues and all amounts in the Enterprise Fund. The term of the Agreement is thirty years from December 17, 2002 with an interest rate of 3.50% per annum.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 70 - Zone G, L and L-1
Budgetary Comparison Schedule - Special Revenue Fund
For the Year Ended June 30, 2003

| | Special Revenue Fund | | | |
|-----------------------------|-------------------------------|-----------------|----------|---|
| | County-Wide Improvement (SLG) | | | |
| | Original Budget | Final Budget | Actual | Variance with Final Budget Favorable (Unfavorable) |
| REVENUES | | | | |
| Property taxes | \$ 6,903 | \$ 6,903 | \$ 6,923 | \$ 20 |
| Other taxes | - | - | 279 | 279 |
| State assistance | - | - | 156 | 156 |
| Investment earnings | - | - | 44 | 44 |
| Total Revenues | 6,903 | 6,903 | 7,402 | 499 |
| EXPENDITURES | | | | |
| Salaries and benefits | 2,225 | 2,225 | 2,225 | - |
| Services and supplies | 4,678 | 4,678 | 3,809 | 869 |
| Reserves and contingencies | 1,476 | 1,476 | - | 1,476 |
| Total Expenditures | 8,379 | 8,379 | 6,034 | 2,345 |
| Net Change in Fund Balances | \$ (1,476) | \$ (1,476) | 1,368 | \$ 2,844 |
| Fund Balances - beginning | | | 1,475 | |
| Fund Balances - ending | | | \$ 2,843 | |

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
ZONE HL - HAVASU LAKE**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 70
Zone HL - Havasu Lake
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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 70 - Zone HL - Havasu Lake

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the County of San Bernardino Special District County Service Area No. 70 - Zone HL - Havasu Lake (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the County of San Bernardino Special District County Service Area No. 70 - Zone HL - Havasu Lake, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 20 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

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The County of San Bernardino Special District County Service Area No. 70 - Zone HL - Havasu Lake has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

County of San Bernardino Special Districts
County Service Area No. 70 - Zone HL - Havasu Lake
Statement of Net Assets
June 30, 2003

| | Governmental Activities | Business-type Activities | Total |
|-------------------------------------|----------------------------|-----------------------------|----------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 44,951 | \$ 60,736 | \$ 105,687 |
| Accounts receivable, net | 13,499 | - | 13,499 |
| Interest receivable | 282 | 332 | 614 |
| Taxes receivable | 9,387 | - | 9,387 |
| Capital assets, net of depreciation | 154,646 | - | 154,646 |
| | <u>222,765</u> | <u>61,068</u> | <u>283,833</u> |
| Total Assets | | | |
| LIABILITIES | | | |
| Salaries and benefits payable | 936 | - | 936 |
| Due to other governments | 713 | - | 713 |
| | <u>1,649</u> | <u>-</u> | <u>1,649</u> |
| Total Liabilities | | | |
| NET ASSETS | | | |
| Invested in capital assets | 154,646 | - | 154,646 |
| Unrestricted | 66,470 | 61,068 | 127,538 |
| | <u>221,116</u> | <u>61,068</u> | <u>282,184</u> |
| Total Net Assets | | | |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone HL - Havasu Lake
Statement of Activities
For the Year Ended June 30, 2003

| | Governmental Activities | Business-type Activities | Total |
|------------------------------------|----------------------------|-----------------------------|-------------------|
| EXPENSES | | | |
| Salaries and benefits | \$ 39,964 | \$ 5,645 | \$ 45,609 |
| Services and supplies | 86,945 | 1,131 | 88,076 |
| Intergovernmental | 4,655 | - | 4,655 |
| Depreciation | 11,389 | - | 11,389 |
| Professional fees | - | 26,440 | 26,440 |
| Total Program Expenses | <u>142,953</u> | <u>33,216</u> | <u>176,169</u> |
| PROGRAM REVENUE | | | |
| Charges for services | 44,260 | - | 44,260 |
| Operating grants and contributions | - | 36,993 | 36,993 |
| Net Program (Expense) Revenue | <u>(98,693)</u> | <u>3,777</u> | <u>(94,916)</u> |
| GENERAL REVENUES | | | |
| Property taxes | 64,664 | 1,173 | 65,837 |
| Other taxes | 3,140 | - | 3,140 |
| State assistance | 1,469 | - | 1,469 |
| Investment earnings | 1,449 | 1,707 | 3,156 |
| Sale of capital asset | 1,448 | - | 1,448 |
| Other | 17,282 | - | 17,282 |
| Total General Revenues | <u>89,452</u> | <u>2,880</u> | <u>92,332</u> |
| Change in Net Assets | (9,241) | 6,657 | (2,584) |
| Net assets - beginning | <u>230,357</u> | <u>54,411</u> | <u>284,768</u> |
| Net assets - ending | <u>\$ 221,116</u> | <u>\$ 61,068</u> | <u>\$ 282,184</u> |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone HL - Havasu Lake
Balance Sheet
Governmental Fund
June 30, 2003

| | SPECIAL REVENUE FUND General (STC) |
|--|--|
| ASSETS | |
| Cash and cash equivalents | \$ 44,951 |
| Accounts receivable, net | 13,499 |
| Interest receivable | 282 |
| Taxes receivable | 3,795 |
| | <hr/> |
| Total Assets | \$ 62,527 |
| | <hr/> |
| LIABILITIES AND FUND BALANCES | |
| Liabilities: | |
| Salaries and benefits payable | \$ 936 |
| Due to other governments | 713 |
| | <hr/> |
| Total Liabilities | 1,649 |
| | <hr/> |
| Fund Balances: | |
| Reserved for: | |
| Encumbrances | 3,600 |
| Unreserved: | |
| Undesignated | 57,278 |
| | <hr/> |
| Total Fund Balances | 60,878 |
| | <hr/> |
| Total Liabilities and Fund Balances | \$ 62,527 |
| | <hr/> |
| Total Fund Balances - governmental fund | \$ 60,878 |
| Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund. | 154,646 |
| Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds. | |
| Property tax revenue | 5,592 |
| | <hr/> |
| Net assets of governmental fund | \$ 221,116 |
| | <hr/> |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone HL - Havasu Lake
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund
For the Year Ended June 30, 2003

| | SPECIAL REVENUE FUND |
|---------------------------------------|----------------------------|
| | General (STC) |
| REVENUES | |
| Property taxes | \$ 64,466 |
| Other taxes | 3,140 |
| State assistance | 1,469 |
| Investment earnings | 1,449 |
| Service fees | 44,260 |
| Other | 17,282 |
| Total Revenues | <u>132,066</u> |
| EXPENDITURES | |
| Salaries and benefits | 39,964 |
| Services and supplies | 86,945 |
| Total Expenditures | <u>126,909</u> |
| Excess of Revenues Over Expenditures | <u>5,157</u> |
| OTHER FINANCING SOURCES (USES) | |
| Sale of capital asset | 1,448 |
| Transfer out | <u>(4,655)</u> |
| Total Other Financing Sources (Uses) | <u>(3,207)</u> |
| Net Change in Fund Balances | 1,950 |
| Fund Balances - beginning | <u>58,928</u> |
| Fund Balances - ending | <u><u>\$ 60,878</u></u> |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone HL - Havasu Lake
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Fund to the
Statement of Activities
For the Year Ended June 30, 2003

| | | |
|---|----|-------|
| Net Change in Fund Balances - Total Governmental Fund | \$ | 1,950 |
|---|----|-------|

Amounts reported for governmental activities in the statement of activities are different because:

| | | |
|--|--|----------|
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period. | | (11,389) |
|--|--|----------|

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

| | | |
|-------------------------------------|--|---------|
| Property tax revenue - current year | | 5,592 |
| Property tax revenue - prior year | | (5,394) |

| | | |
|---|----|----------------|
| Change in net assets of governmental activities | \$ | <u>(9,241)</u> |
|---|----|----------------|

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone HL - Havasu Lake
Statement of Net Assets
Proprietary Fund
June 30, 2003

| | ENTERPRISE FUND |
|---------------------------|--------------------|
| | Refuse |
| ASSETS | |
| Cash and cash equivalents | \$ 60,736 |
| Interest receivable | 332 |
| Total Assets | <u>61,068</u> |
| LIABILITIES | <u>-</u> |
| NET ASSETS | |
| Unrestricted | <u>61,068</u> |
| Total Net Assets | <u>\$ 61,068</u> |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone HL - Havasu Lake
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2003

| | ENTERPRISE FUND <u>Refuse</u> |
|---|-------------------------------------|
| OPERATING REVENUES | <u>\$ -</u> |
| OPERATING EXPENSES | |
| Professional services | 26,440 |
| Salaries and benefits | 5,645 |
| Services and supplies | 1,131 |
| Total Operating Expenses | <u>33,216</u> |
| Operating (Loss) | <u>(33,216)</u> |
| NONOPERATING REVENUES (EXPENSES) | |
| Property taxes | 1,173 |
| Special assessments | 36,993 |
| Investment earnings | 1,707 |
| Total Nonoperating Revenues (Expenses) | <u>39,873</u> |
| Change in Net Assets | 6,657 |
| Net assets - beginning | <u>54,411</u> |
| Net assets - ending | <u><u>\$ 61,068</u></u> |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone HL - Havasu Lake
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2003

| | ENTERPRISE FUND Refuse |
|--|------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Payments to suppliers | \$ (27,571) |
| Payments to employees | (5,645) |
| Net Cash (Used For) Operating Activities | <u>(33,216)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Property taxes | 1,173 |
| Special assessments | 36,993 |
| Net Cash Provided By Noncapital Financing Activities | <u>38,166</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Investment earnings | 1,971 |
| Net Cash Provided By Investing Activities | <u>1,971</u> |
| Net Increase in Cash and Cash Equivalents | 6,921 |
| Cash and Cash Equivalents - beginning of the year | <u>53,815</u> |
| Cash and Cash Equivalents - end of the year | <u>\$ 60,736</u> |
| Noncash investing, noncapital, capital and financing activities: | |
| None | |
| Reconciliation of operating (loss) to net cash (used for) operating activities: | |
| Operating (loss) | \$ (33,216) |
| Adjustments to reconcile operating (loss) to net cash (used for) operating activities: | |
| Change in assets and liabilities: | |
| None | - |
| Net Cash (Used For) Operating Activities | <u>\$ (33,216)</u> |

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone HL - Havasu Lake
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 70 - Zone HL was established by an act of the Board of Supervisors of the County of San Bernardino (the County) in April 1990 to provide fire protection and refuse services to the community of Havasu Lake.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 - Zone HL of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone HL - Havasu Lake
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, as are proprietary fund financial statement regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The government reports the following major proprietary fund:

The *enterprise fund* labeled "Refuse" accounts for the activities of the CSA, a blended component unit of the County. The CSA provides contract refuse collection service to 277 parcels within the community of Havasu Lake.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone HL - Havasu Lake
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the CSA enterprise fund are charges to customers for refuse, water and sewer services. Operating expenses for enterprise funds include the cost of salaries and benefits, service and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All accounts receivable are shown net of an allowance for uncollectibles when applicable. The accounts receivable balance of the Fire Special Revenue Fund at June 30, 2003 is net of an allowance for doubtful accounts of \$13,112.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone HL - Havasu Lake
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------------|--------------|
| Infrastructure | 40 - 60 |
| Structures and improvements | 5 - 40 |
| Equipment and vehicles | 4 - 15 |

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone HL - Havasu Lake
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: RECEIVABLES

At June 30, 2003, the accounts receivable was composed of the following:

| | <u>General</u> |
|------------------------------------|------------------|
| Accounts | \$ 26,611 |
| Less: allowance for uncollectibles | <u>(13,112)</u> |
| Net total receivables | <u>\$ 13,499</u> |

County of San Bernardino Special Districts
County Service Area No. 70 - Zone HL - Havasu Lake
Notes to Financial Statements
June 30, 2003

NOTE 4: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|----------------------|--------------------|-------------|-------------------|
| Governmental activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Structures and improvements | \$ 194,068 | \$ - | \$ - | \$ 194,068 |
| Vehicles | 255,401 | - | (29,348) | 226,053 |
| Equipment | 27,773 | - | - | 27,773 |
| Total capital assets, being depreciated | 477,242 | - | (29,348) | 447,894 |
| Less accumulated depreciation for: | | | | |
| Structures and improvements | (42,767) | (4,313) | - | (47,080) |
| Vehicles | (248,047) | (4,412) | 29,348 | (223,111) |
| Equipment | (20,393) | (2,664) | - | (23,057) |
| Total accumulated depreciation | (311,207) | (11,389) | 29,348 | (293,248) |
| Total capital assets, being depreciated, net | <u>\$ 166,035</u> | <u>\$ (11,389)</u> | <u>\$ -</u> | <u>\$ 154,646</u> |

NOTE 5: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone HL - Havasu Lake
Notes to Financial Statements
June 30, 2003

NOTE 5: RETIREMENT PLAN (continued)

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

| <u>Year Ended June 30,</u> | <u>Annual Pension Cost (in thousands)</u> | <u>Percentage Contributed</u> |
|--------------------------------|---|-----------------------------------|
| 2001 | 58,572 | 100% |
| 2002 | 69,245 | 100% |
| 2003 | 68,361 | 100% |

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone HL - Havasu Lake
Notes to Financial Statements
June 30, 2003

NOTE 6: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 7: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). Insurance premiums totaled \$1,147 for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone HL - Havasu Lake
Notes to Financial Statements
June 30, 2003**

NOTE 7: RISK MANAGEMENT (continued)

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

| <u>Fiscal Year</u> | <u>Beginning of Fiscal Year Liability (in thousands)</u> | <u>Current Year Claims and Changes in Estimates (in thousands)</u> | <u>Claims Payments (in thousands)</u> | <u>End of Fiscal Year Liability (in thousands)</u> |
|--------------------|--|--|---|--|
| 2002 - 2003 | \$ 95,288 | \$ 23,647 | \$ (32,171) | \$ 86,764 |
| 2001 - 2002 | \$ 61,172 | \$ 61,832 | \$ (27,716) | \$ 95,288 |

NOTE 8: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 9: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 70 - Zone HL - Havasu Lake
Budgetary Comparison Schedule - Special Revenue Fund (General)
For the Year Ended June 30, 2003

| | Special Revenue Fund | | | |
|---|----------------------|-----------------|-----------|---|
| | General (STC) | | | |
| | Original Budget | Final Budget | Actual | Variance with Final Budget Favorable (Unfavorable) |
| REVENUES | | | | |
| Property taxes | \$ 65,482 | \$ 65,482 | \$ 64,466 | \$ (1,016) |
| Other taxes | - | - | 3,140 | 3,140 |
| State assistance | - | - | 1,469 | 1,469 |
| Investment earnings | - | - | 1,449 | 1,449 |
| Service fees | 19,200 | 19,200 | 44,260 | 25,060 |
| Other | 11,518 | 11,518 | 17,282 | 5,764 |
| Total Revenues | 96,200 | 96,200 | 132,066 | 35,866 |
| EXPENDITURES | | | | |
| Salaries and benefits | 44,567 | 44,567 | 39,964 | 4,603 |
| Services and supplies | 83,611 | 83,611 | 86,945 | (3,334) |
| Reserves and contingencies | 17,492 | 17,492 | - | 17,492 |
| Total Expenditures | 145,670 | 145,670 | 126,909 | 18,761 |
| Excess of Revenues Over (Under) Expenditures | (49,470) | (49,470) | 5,157 | 54,627 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of capital assets | - | - | 1,448 | 1,448 |
| Transfer out | (4,655) | (4,655) | (4,655) | - |
| Total Other Financing Sources (Uses) | (4,655) | (4,655) | (3,207) | 1,448 |
| Net Change in Fund Balances | \$ (54,125) | \$ (54,125) | 1,950 | \$ 56,075 |
| Fund Balances - beginning | | | 58,928 | |
| Fund Balances - ending | | | \$ 60,878 | |

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
ZONE J**

REPORT ON AUDIT

JUNE 30, 2003

County of San Bernardino Special Districts
County Service Area No. 70
Zone J
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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 70 - Zone J

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 - Zone J (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003 as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 70 - Zone J, as of June 30, 2003, and the changes in its financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The County of San Bernardino Special District County Service Area No. 70 - Zone J has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

MEMBERS

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County of San Bernardino Special Districts
County Service Area No. 70 - Zone J
Statement of Net Assets
June 30, 2003

ASSETS

Current Assets:

| | |
|---------------------------|------------------|
| Cash and cash equivalents | \$ 3,638,939 |
| Receivables, net | 292,614 |
| Interest receivable | 19,270 |
| Taxes receivable | 3,480 |
| Total Current Assets | <u>3,954,303</u> |

Noncurrent Assets:

Capital Assets:

| | |
|--------------------------|--------------------|
| Land | 18,805 |
| Improvements to land | 9,174,537 |
| Vehicles | 46,805 |
| Equipment | 19,160 |
| Construction in progress | 184,276 |
| Accumulated depreciation | <u>(3,787,459)</u> |
| Total Noncurrent Assets | <u>5,656,124</u> |

Total Assets

9,610,427

LIABILITIES

Current Liabilities:

| | |
|---------------------------|----------------|
| Accounts payable | 162,695 |
| Due to other governments | 1,206 |
| Bonds payable | 5,000 |
| Total Current Liabilities | <u>168,901</u> |

NET ASSETS

| | |
|---|---------------------|
| Invested in capital assets, net of related debt | 5,651,124 |
| Unrestricted | <u>3,790,402</u> |
| Total Net Assets | <u>\$ 9,441,526</u> |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone J
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2003

OPERATING REVENUES

| | |
|--------------------------|------------------|
| Water sales | \$ 1,399,133 |
| Connection fees | 690,564 |
| Other services | 114,359 |
| Total Operating Revenues | <u>2,204,056</u> |

OPERATING EXPENSES

| | |
|--------------------------|------------------|
| Professional services | 89,078 |
| Salaries and benefits | 521,648 |
| Services and supplies | 459,122 |
| Rents and leases | 1,797 |
| Utilities | 398,319 |
| Depreciation | 203,326 |
| Other | 71,541 |
| Total Operating Expenses | <u>1,744,831</u> |

| | |
|------------------|----------------|
| Operating Income | <u>459,225</u> |
|------------------|----------------|

NONOPERATING REVENUES (EXPENSES)

| | |
|-----------------------------|----------------|
| Investment earnings | 97,751 |
| Property taxes | 5,203 |
| Special assessments | 134,910 |
| Other taxes | 42 |
| State assistance | 5 |
| Penalties | 35,499 |
| Other | 19,981 |
| Total Nonoperating Revenues | <u>293,391</u> |

| | |
|----------------------|---------|
| Change in net assets | 752,616 |
|----------------------|---------|

| | |
|------------------------|------------------|
| Net Assets - beginning | <u>8,688,910</u> |
|------------------------|------------------|

| | |
|---------------------|---------------------|
| Net Assets - ending | <u>\$ 9,441,526</u> |
|---------------------|---------------------|

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone J
Statement of Cash Flows
For the Year Ended June 30, 2003**

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|----------------|
| Receipts from customers | \$ 2,217,489 |
| Payments to suppliers | (998,563) |
| Payments to employees | (521,648) |
| Net Cash Provided By Operating Activities | <u>697,278</u> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|----------------|
| Property taxes | 7,011 |
| Special assessments | 134,910 |
| State assistance | 5 |
| Penalties | 35,499 |
| Other nonoperating revenues | 20,023 |
| Net Cash Provided by Noncapital Financing Activities | <u>197,448</u> |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|--|------------------|
| Purchase of capital asset | (126,305) |
| Net Cash (Used For) Capital and Related Financing Activities | <u>(126,305)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|----------------|
| Investment earnings | 104,373 |
| Net Cash Provided By Investing Activities | <u>104,373</u> |

Net increase in cash and cash equivalents 872,794

Cash and Cash Equivalents - beginning of the year 2,766,145

Cash and Cash Equivalents - end of the year \$ 3,638,939

Reconciliation of operating income to net cash provided by operating activities:

| | |
|---|------------|
| Operating income | \$ 459,225 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation expense | 203,326 |
| Change in assets and liabilities: | |
| Increase in receivables, net | (57,143) |
| Decrease in due from other governments | 70,576 |
| Increase in accounts payable | 20,088 |
| Increase in due to other governments | 1,206 |

Net Cash Provided By Operating Activities \$ 697,278

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone J
Statement of Fiduciary Net Assets
Agency Funds
June 30, 2003

ASSETS

| | |
|----------------------|------------|
| Cash and investments | \$ 285,783 |
|----------------------|------------|

| | |
|--------------|-------------------|
| Total Assets | <u>\$ 285,783</u> |
|--------------|-------------------|

LIABILITIES

| | |
|--------------------|-------------------|
| Due to bondholders | <u>\$ 285,783</u> |
|--------------------|-------------------|

| | |
|-------------------|-------------------|
| Total Liabilities | <u>\$ 285,783</u> |
|-------------------|-------------------|

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone J
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 70 Zone J was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code. The CSA is located 16 miles southwest of Victorville. It serves 2,213 properties and maintains 3 wells, 5 booster stations and reservoir storage.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 Zone J of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Measurement focus, basis of accounting, and financial statement presentation

The CSA's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone J
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All accounts receivable are shown net of an allowance for uncollectibles when applicable. The accounts receivable balance at June 30, 2003 is net of an allowance for doubtful accounts of \$23,035.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone J
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets

Capital assets, which include property, plant, and equipment are reported in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------------|--------------|
| Structures and improvements | 5 - 40 |
| Equipment and vehicles | 4 - 15 |

Long-term obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

Although the District prepares and adopts an annual budget, budgetary information is not presented because the District is not legally required to adopt a budget.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone J
Notes to Financial Statements
June 30, 2003

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: RECEIVABLES

At June 30, 2003, the receivables were composed of the following:

| | <u>Ambulance</u> |
|------------------------------------|-------------------|
| Accounts | \$ 315,649 |
| Less: allowance for uncollectibles | <u>(23,035)</u> |
| Net Total Receivables | <u>\$ 292,614</u> |

NOTE 4: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|---|------------------------------|--------------------|------------------|---------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 18,805 | \$ - | \$ - | \$ 18,805 |
| Construction in progress | 146,505 | 37,771 | - | 184,276 |
| Total capital assets, not being depreciated | <u>165,310</u> | <u>37,771</u> | <u>-</u> | <u>203,081</u> |
| Capital assets, being depreciated: | | | | |
| Improvements to land | 9,105,163 | 69,374 | - | 9,174,537 |
| Vehicles | 46,805 | - | - | 46,805 |
| Equipment | - | 19,160 | - | 19,160 |
| Total capital assets, being depreciated | <u>9,151,968</u> | <u>88,534</u> | <u>-</u> | <u>9,240,502</u> |
| Less accumulated depreciation for: | | | | |
| Improvements to land | (3,537,328) | (203,326) | - | (3,740,654) |
| Vehicles | (46,805) | - | - | (46,805) |
| Total accumulated depreciation | <u>(3,584,133)</u> | <u>(203,326)</u> | <u>-</u> | <u>(3,787,459)</u> |
| Total capital assets, being depreciated | <u>5,567,835</u> | <u>(114,792)</u> | <u>-</u> | <u>5,453,043</u> |
| Total capital assets, net | <u>\$ 5,733,145</u> | <u>\$ (77,021)</u> | <u>\$ -</u> | <u>\$ 5,656,124</u> |

County of San Bernardino Special Districts
County Service Area No. 70 - Zone J
Notes to Financial Statements
June 30, 2003

NOTE 5: REFUNDING OF 1915 ACT BONDS

On June 30, 1994, the County's Assessment District 94-2 issued a Limited Obligation Refunding Bond (the "Assessment Bond") under the provisions of the Refunding Act of 1984 for 1915 Improvement Act Bonds for the purpose of refunding eleven prior series of assessment district bonds of the County. The prior series assessment bonds of Assessment District #84-3 and #87-2 amounting to \$3,675,000 were refunded. The Assessment Bond is payable from reassessment payments, collected on assessed parcels within Assessment District 94-2, of which Assessment District #84-3 and #87-2 are subareas. Exhibit D shows the cash and investments of the Agency funds including Assessment Districts #84-3 and #87-2 which represent reserve funds of the Assessment District County Service Area No. 70 - Zone J at June 30, 2003.

The CSA has no obligation to advance funds to pay debt service on the Assessment Bond in the event collections are insufficient. However, the CSA may, at its option and in its sole discretion, elect to advance available funds of the CSA in the amount of any delinquent payments to pay debt service on the Assessment bond.

NOTE 6: MATURED BONDS PAYABLE

In 1974, the Board of Supervisors approved the issuance of General Obligation Bonds to finance construction of a water facility. Bonds were issued under the authority provided under the County Service Area Law of the California Government Code. The matured portion of bonds payable amounts to \$5,000 at June 30, 2003.

NOTE 7: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone J
Notes to Financial Statements
June 30, 2003

NOTE 7: RETIREMENT PLAN (continued)

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

| <u>Year Ended June 30,</u> | <u>Annual Pension Cost (in thousands)</u> | <u>Percentage Contributed</u> |
|--------------------------------|---|-----------------------------------|
| 2001 | 58,572 | 100% |
| 2002 | 69,245 | 100% |
| 2003 | 68,361 | 100% |

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone J
Notes to Financial Statements
June 30, 2003

NOTE 8: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 9: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone J
Notes to Financial Statements
June 30, 2003**

NOTE 9: RISK MANAGEMENT (continued)

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

| <u>Fiscal Year</u> | <u>Beginning of Fiscal Year Liability (in thousands)</u> | <u>Current Year Claims and Changes in Estimates (in thousands)</u> | <u>Claims Payments (in thousands)</u> | <u>End of Fiscal Year Liability (in thousands)</u> |
|--------------------|--|--|---|--|
| 2002 - 2003 | \$ 95,288 | \$ 23,647 | \$ (32,171) | \$ 86,764 |
| 2001 - 2002 | \$ 61,172 | \$ 61,832 | \$ (27,716) | \$ 95,288 |

NOTE 10: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 11: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 12: SUBSEQUENT EVENT

In November 2003 the board entered into a \$2,400,000 loan agreement with the California Infrastructure and Economic Development Bank (CIEDB) to fund water system improvements in CSA 70 - Zone J.

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
ZONE M - WONDER VALLEY**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 70
Zone M - Wonder Valley
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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 70 - Zone M - Wonder Valley

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 70 - Zone M - Wonder Valley (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 70 - Zone M - Wonder Valley, as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on pages 20 - 22 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

The County of San Bernardino Special District County Service Area No. 70 - Zone M - Wonder Valley has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CSA's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the component unit financial statements taken as a whole.

September 26, 2003

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County of San Bernardino Special Districts
County Service Area No. 70 - Zone M - Wonder Valley
Statement of Net Assets
June 30, 2003

ASSETS

| | |
|-------------------------------------|----------------|
| Cash and cash equivalents | \$ 113,553 |
| Interest receivable | 723 |
| Taxes receivable | 19,928 |
| Capital assets, net of depreciation | <u>246,560</u> |
| Total Assets | <u>380,764</u> |

LIABILITIES

| | |
|-------------------------------|---------------|
| Salaries and benefits payable | 4,124 |
| Due to other governments | 978 |
| Compensated absences payable | 2,949 |
| Accrued interest payable | 27 |
| Long-term liabilities: | |
| Due within one year | <u>12,187</u> |
| Total Liabilities | <u>20,265</u> |

NET ASSETS

| | |
|---|--------------------------|
| Invested in capital assets, net of related debt | 234,373 |
| Unrestricted | <u>126,126</u> |
| Total Net Assets | <u><u>\$ 360,499</u></u> |

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone M - Wonder Valley
Statement of Activities
For the Year Ended June 30, 2003

EXPENSES

| | |
|------------------------|----------------|
| Salaries and benefits | \$ 115,072 |
| Services and supplies | 108,388 |
| Depreciation | 19,788 |
| Interest | 737 |
| Total Program Expenses | <u>243,985</u> |

PROGRAM REVENUES

| | |
|----------------------|------------------|
| Charges for services | 115,570 |
| Net Program Expense | <u>(128,415)</u> |

GENERAL REVENUES

| | |
|--------------------------------|----------------|
| Property taxes | 127,985 |
| Other taxes | 5,501 |
| State assistance | 2,681 |
| Intergovernmental | 12,676 |
| Investment earnings | 3,063 |
| Gain on sale of capital assets | 193 |
| Other | 15 |
| Total General Revenues | <u>152,114</u> |

| | |
|----------------------|--------|
| Change in Net Assets | 23,699 |
|----------------------|--------|

| | |
|------------------------|----------------|
| Net Assets - beginning | <u>336,800</u> |
|------------------------|----------------|

| | |
|---------------------|-------------------|
| Net Assets - ending | <u>\$ 360,499</u> |
|---------------------|-------------------|

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone M - Wonder Valley
Balance Sheet
Governmental Funds
June 30, 2003

| | SPECIAL REVENUE FUNDS | | |
|--------------------------------------|-----------------------|------------------|------------------|
| | Fire (SLM) | Road (SLP) | Park (SYR) |
| ASSETS | | | |
| Cash and cash equivalents | \$ 24,024 | \$ 45,875 | \$ 43,547 |
| Interest receivable | 167 | 311 | 245 |
| Taxes receivable | 6,936 | 3,542 | - |
| Total Assets | <u>\$ 31,127</u> | <u>\$ 49,728</u> | <u>\$ 43,792</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Salaries and benefits payable | \$ 2,550 | \$ 863 | \$ 711 |
| Due to other governments | 859 | - | 119 |
| Total Liabilities | <u>3,409</u> | <u>863</u> | <u>830</u> |
| Fund Balances: | | | |
| Unreserved | | | |
| Undesignated | <u>27,718</u> | <u>48,865</u> | <u>42,962</u> |
| Total Fund Balances | <u>27,718</u> | <u>48,865</u> | <u>42,962</u> |
| Total Liabilities and Fund Balances | <u>\$ 31,127</u> | <u>\$ 49,728</u> | <u>\$ 43,792</u> |

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.
Property tax revenue

Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:
Compensated absences
Accrued interest
Due in more than one year

Net assets of governmental funds

The accompanying notes are an integral part of these financial statements.

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$ 107 | \$ 113,553 |
| - | 723 |
| - | 10,478 |
| <u>\$ 107</u> | <u>\$ 124,754</u> |
| | |
| \$ - | \$ 4,124 |
| - | 978 |
| | |
| - | 5,102 |
| | |
| 107 | 119,652 |
| | |
| 107 | 119,652 |
| | |
| <u>\$ 107</u> | |
| | |
| | 246,560 |
| | |
| | 9,450 |
| | |
| | (2,949) |
| | (27) |
| | <u>(12,187)</u> |
| | |
| | <u>\$ 360,499</u> |

County of San Bernardino Special Districts
County Service Area No. 70 - Zone M - Wonder Valley
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

| | SPECIAL REVENUE FUNDS | | |
|---|-----------------------|------------------|------------------|
| | Fire (SLM) | Road (SLP) | Park (SYR) |
| REVENUES | | | |
| Property taxes | \$ 121,220 | \$ 4,796 | \$ 2,358 |
| Other taxes | 5,501 | - | - |
| Special assessments | - | 71,125 | 42,248 |
| State assistance | 2,681 | - | - |
| Investment earnings | 579 | 1,183 | 1,243 |
| Service fees | - | - | 2,197 |
| Other | 15 | - | - |
| Total Revenues | <u>129,996</u> | <u>77,104</u> | <u>48,046</u> |
| EXPENDITURES | | | |
| Salaries and benefits | 67,577 | 20,550 | 28,513 |
| Services and supplies | 57,507 | 24,116 | 26,765 |
| Capital Outlay: | | | |
| Improvements to land | - | - | - |
| Debt Service: | | | |
| Principal | - | 17,834 | - |
| Interest | - | 789 | - |
| Total Expenditures | <u>125,084</u> | <u>63,289</u> | <u>55,278</u> |
| Excess of Revenues Over (Under) Expenditures | <u>4,912</u> | <u>13,815</u> | <u>(7,232)</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfer in | - | - | - |
| Transfer out | (4,324) | - | - |
| Sale of capital assets | - | - | 193 |
| Total Other Financing Sources (Uses) | <u>(4,324)</u> | <u>-</u> | <u>193</u> |
| Net Change in Fund Balances | 588 | 13,815 | (7,039) |
| Fund Balances - beginning | <u>27,130</u> | <u>35,050</u> | <u>50,001</u> |
| Fund Balances - ending | <u>\$ 27,718</u> | <u>\$ 48,865</u> | <u>\$ 42,962</u> |

The accompanying notes are an integral part of these financial statements.

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$ - | \$ 128,374 |
| - | 5,501 |
| - | 113,373 |
| - | 2,681 |
| 58 | 3,063 |
| - | 2,197 |
| - | 15 |
| <u>58</u> | <u>255,204</u> |
| - | 116,640 |
| - | 108,388 |
| 17,000 | 17,000 |
| - | 17,834 |
| - | 789 |
| <u>17,000</u> | <u>260,651</u> |
| <u>(16,942)</u> | <u>(5,447)</u> |
| 17,000 | 17,000 |
| - | (4,324) |
| - | 193 |
| <u>17,000</u> | <u>12,869</u> |
| 58 | 7,422 |
| 49 | 112,230 |
| <u>\$ 107</u> | <u>\$ 119,652</u> |

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County of San Bernardino Special Districts
County Service Area No. 70 - Zone M - Wonder Valley
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2003

| | |
|--|-----------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 7,422 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period. | |
| | (2,788) |
| Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds. | |
| Property tax revenue - current year | 9,450 |
| Property tax revenue - prior year | (9,839) |
| Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities - both current and long-term - are reported in the statement of net assets. | |
| Decrease in compensated absences payable | 1,568 |
| Decrease in accrued interest payable | 52 |
| Decrease in due within one year | 2,623 |
| Decrease in due in more than one year | 15,211 |
| Change in net assets of governmental activities | \$ 23,699 |

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone M - Wonder Valley
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 70 - Zone M was established by an act of the Board of Supervisors of the County of San Bernardino (the County) to provide fire protection, park services and maintenance to 370 miles of road to the community of Wonder Valley.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 - Zone M of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone M - Wonder Valley
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue fund* labeled "Fire" provides fire protection services to the community of Wonder Valley under the administrative direction of the San Bernardino County Fire Department.

The *special revenue fund* labeled "Road" provides maintenance to 370 miles of road.

The *special revenue fund* labeled "Park" provides park services to the community of Wonder Valley.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone M - Wonder Valley
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone M - Wonder Valley
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------------|--------------|
| Infrastructure | 40 - 60 |
| Structures and improvements | 5 - 40 |
| Equipment and vehicles | 4 - 15 |

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The CSA is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2003 was as follows:

| <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|------------------------------|------------------|------------------|---------------------------|
| \$ 4,517 | \$ 794 | \$ 2,362 | \$ 2,949 |

County of San Bernardino Special Districts
County Service Area No. 70 - Zone M - Wonder Valley
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$(2,788) difference are as follows:

| | |
|---|-------------------|
| Capital outlay | \$ 17,000 |
| Depreciation expense | <u>(19,788)</u> |
| Net adjustment to decrease <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | <u>\$ (2,788)</u> |

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone M - Wonder Valley
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|--|----------------------|------------|-----------|-------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 14,661 | \$ - | \$ - | \$ 14,661 |
| Total capital assets, not being depreciated | 14,661 | - | - | 14,661 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 164,211 | - | - | 164,211 |
| Vehicles | 329,569 | 7,613 | - | 337,182 |
| Equipment | 25,299 | 17,000 | - | 42,299 |
| Total capital assets, being depreciated | 519,079 | 24,613 | - | 543,692 |
| Less accumulated depreciation for: | | | | |
| Land improvements | (30,162) | (6,518) | - | (36,680) |
| Vehicles | (236,126) | (18,942) | - | (255,068) |
| Equipment | (18,104) | (1,941) | - | (20,045) |
| Total accumulated depreciation | (284,392) | (27,401) | - | (311,793) |
| Total capital assets, being depreciated, net | 234,687 | (2,788) | - | 231,899 |
| Governmental activities capital assets, net | \$ 249,348 | \$ (2,788) | \$ - | \$ 246,560 |

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone M - Wonder Valley
Notes to Financial Statements
June 30, 2003**

NOTE 4: LOAN PAYABLE

The CSA received loan proceeds from the County's Revolving Fund established under Government Code Section 25210.9c. All loans to date have five-year terms as established by the Board of Supervisors. The loan balance reported on the *Statement of Net Assets* at June 30, 2003 is \$12,187.

Future debt service payments for the County's revolving loan is not disclosed because there are no fixed payment dates.

NOTE 5: CAPITAL LEASE OBLIGATION

The CSA entered into a lease agreement during the year ended June 30, 1999 for a John Deere Motor Grader. The CSA will acquire all rights and title to the equipment after the final lease payment. The cost of the motor grader is included in Capital assets, net of depreciation on Exhibit "A". The capital lease balance reported on the *Statement of Net Assets* at June 30, 2003 is \$-0-.

Change in long-term liabilities

Long-term liability activity for the year ended June 30, 2003, was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|-----------------------------|------------------------------|------------------|--------------------|---------------------------|--------------------------------|
| Capital Lease | \$ 2,623 | \$ - | \$ (2,623) | \$ - | \$ - |
| Loan Payable | 27,398 | - | (15,211) | 12,187 | 12,187 |
| Total Long-term Liabilities | <u>\$ 30,021</u> | <u>\$ -</u> | <u>\$ (17,834)</u> | <u>\$ 12,187</u> | <u>\$ 12,187</u> |

NOTE 6: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone M - Wonder Valley
Notes to Financial Statements
June 30, 2003**

NOTE 6: RETIREMENT PLAN (continued)

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. The CSA paid \$4,651 to the plan as the Employer's portion. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

| <u>Year Ended June 30,</u> | <u>Annual Pension Cost (in thousands)</u> | <u>Percentage Contributed</u> |
|--------------------------------|---|-----------------------------------|
| 2001 | 58,572 | 100% |
| 2002 | 69,245 | 100% |
| 2003 | 68,361 | 100% |

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone M - Wonder Valley
Notes to Financial Statements
June 30, 2003

NOTE 7: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 8: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). Insurance premiums totaled \$11,815 for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone M - Wonder Valley
Notes to Financial Statements
June 30, 2003

NOTE 8: RISK MANAGEMENT (continued)

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

| <u>Fiscal Year</u> | <u>Beginning of Fiscal Year Liability (in thousands)</u> | <u>Current Year Claims and Changes in Estimates (in thousands)</u> | <u>Claims Payments (in thousands)</u> | <u>End of Fiscal Year Liability (in thousands)</u> |
|--------------------|--|--|---|--|
| 2002 - 2003 | \$ 95,288 | \$ 23,647 | \$ (32,171) | \$ 86,764 |
| 2001 - 2002 | \$ 61,172 | \$ 61,832 | \$ (27,716) | \$ 95,288 |

NOTE 9: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 10: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 70 - Zone M - Wonder Valley
Budgetary Comparison Schedule - Special Revenue Funds
For the Year Ended June 30, 2003

| | Special Revenue Funds | | | |
|---|-----------------------|-----------------|------------|---|
| | Fire (SLM) | | | |
| | Original Budget | Final Budget | Actual | Variance with Final Budget Favorable (Unfavorable) |
| REVENUES | | | | |
| Property taxes | \$ 125,989 | \$ 125,989 | \$ 121,220 | \$ (4,769) |
| Other taxes | - | - | 5,501 | 5,501 |
| Special assessments | - | - | - | - |
| State assistance | - | - | 2,681 | 2,681 |
| Investment earnings | - | - | 579 | 579 |
| Service fees | - | - | - | - |
| Other | - | - | 15 | 15 |
| Total Revenues | 125,989 | 125,989 | 129,996 | 4,007 |
| EXPENDITURES | | | | |
| Salaries and benefits | 66,145 | 67,645 | 67,577 | 68 |
| Services and supplies | 75,708 | 74,208 | 57,507 | 16,701 |
| Debt Service: | | | | |
| Principal | - | - | - | - |
| Interest | - | - | - | - |
| Reserves and contingencies | 6,942 | 6,942 | - | 6,942 |
| Total Expenditures | 148,795 | 148,795 | 125,084 | 23,711 |
| Excess of Revenues Over (Under) Expenditures | (22,806) | (22,806) | 4,912 | 27,718 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfer out | (4,324) | (4,324) | (4,324) | - |
| Sale of capital assets | - | - | - | - |
| Total Other Financing Sources (Uses) | (4,324) | (4,324) | (4,324) | - |
| Net Change in Fund Balances | \$ (27,130) | \$ (27,130) | 588 | \$ 27,718 |
| Fund Balances - beginning | | | 27,130 | |
| Fund Balances - ending | | | \$ 27,718 | |

| Special Revenue Funds | | | |
|-----------------------|-----------------|-----------|---|
| Road (SLP) | | | |
| Original Budget | Final Budget | Actual | Variance with Final Budget Favorable (Unfavorable) |
| \$ 1,000 | \$ 1,000 | \$ 4,796 | \$ 3,796 |
| - | - | - | - |
| 62,000 | 62,000 | 71,125 | 9,125 |
| - | - | - | - |
| 1,000 | 1,000 | 1,183 | 183 |
| - | - | - | - |
| - | - | - | - |
| 64,000 | 64,000 | 77,104 | 13,104 |
| 38,342 | 38,342 | 20,550 | 17,792 |
| 27,629 | 27,629 | 24,116 | 3,513 |
| 16,000 | 16,000 | 17,834 | (1,834) |
| - | - | 789 | (789) |
| 17,079 | 17,079 | - | 17,079 |
| 99,050 | 99,050 | 63,289 | 35,761 |
| (35,050) | (35,050) | 13,815 | 48,865 |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| \$ (35,050) | \$ (35,050) | 13,815 | \$ 48,865 |
| | | 35,050 | |
| | | \$ 48,865 | |

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 70 - Zone M - Wonder Valley
Budgetary Comparison Schedule - Special Revenue Funds
For the Year Ended June 30, 2003

| | Special Revenue Funds | | | |
|---|-----------------------|-----------------|-------------|---|
| | Park (SYR) | | | |
| | Original Budget | Final Budget | Actual | Variance with Final Budget Favorable (Unfavorable) |
| REVENUES | | | | |
| Property taxes | \$ - | \$ - | \$ 2,358 | \$ 2,358 |
| Other taxes | - | - | - | - |
| Special assessments | 46,000 | 46,000 | 42,248 | (3,752) |
| State assistance | - | - | - | - |
| Investment earnings | 800 | 800 | 1,243 | 443 |
| Service fees | 1,500 | 1,500 | 2,197 | 697 |
| Other | - | - | - | - |
| Total Revenues | 48,300 | 48,300 | 48,046 | (254) |
| EXPENDITURES | | | | |
| Salaries and benefits | 40,022 | 40,022 | 28,513 | 11,509 |
| Services and supplies | 26,907 | 26,907 | 26,765 | 142 |
| Debt Service: | | | | |
| Principal | - | - | - | - |
| Interest | - | - | - | - |
| Reserves and contingencies | 31,072 | 31,072 | - | 31,072 |
| Total Expenditures | 98,001 | 98,001 | 55,278 | 42,723 |
| Excess of Revenues Over (Under) Expenditures | (49,701) | (49,701) | (7,232) | 42,469 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfer out | - | - | - | - |
| Sale of capital assets | - | - | 193 | 193 |
| Total Other Financing Sources (Uses) | - | - | 193 | 193 |
| Net Change in Fund Balances | \$ (49,701) | \$ (49,701) | (7,039) | \$ 42,662 |
| Fund Balances - beginning | | | 50,001 | |
| Fund Balances - ending | | | \$ 42,962 | |

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 70 - Zone M - Wonder Valley
Combining Balance Sheet - Nonmajor Governmental Funds
For the Year Ended June 30, 2003

| | CAPITAL PROJECTS FUNDS | | Total Nonmajor Governmental Funds (see Exhibit C) |
|--------------------------------------|------------------------|-------------------------|---|
| | Generator (CKN) | Reconstruction (CFT) | |
| ASSETS | | | |
| Cash and cash equivalents | \$ 57 | \$ 50 | \$ 107 |
| Total Assets | <u>\$ 57</u> | <u>\$ 50</u> | <u>\$ 107</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities | \$ - | \$ - | \$ - |
| Fund Balances: | | | |
| Unreserved: | | | |
| Undesignated | 57 | 50 | 107 |
| Total Fund Balances | <u>57</u> | <u>50</u> | <u>107</u> |
| Total Liabilities and Fund Balances | <u>\$ 57</u> | <u>\$ 50</u> | <u>\$ 107</u> |

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 70 - Zone M - Wonder Valley
Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2003

| | CAPITAL PROJECTS FUNDS | | Total Nonmajor Governmental Funds (see Exhibit D) |
|---|------------------------|-------------------------|---|
| | Generator (CKN) | Reconstruction (CFT) | |
| REVENUES | | | |
| Investment earnings | \$ 57 | \$ 1 | \$ 58 |
| Total Revenues | 57 | 1 | 58 |
| EXPENDITURES | | | |
| Other | 17,000 | - | 17,000 |
| Total Expenditures | 17,000 | - | 17,000 |
| Excess of Revenues Over (Under) Expenditures | (16,943) | 1 | (16,942) |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfer in | 17,000 | - | 17,000 |
| Total Other Financing Sources (Uses) | 17,000 | - | 17,000 |
| Net Change in Fund Balances | 57 | 1 | 58 |
| Fund balances - beginning | - | 49 | 49 |
| Fund balances - ending | \$ 57 | \$ 50 | \$ 107 |